

City of Fort Smith, Arkansas

Comprehensive Annual Financial Report

Year Ended December 31, 2017

Prepared By the

City of Fort Smith, Arkansas Finance Department

City Board of Directors

Sandy Sanders, Mayor

Keith Lau
Andre' Good
Mike Lorenz
George Catsavis
Tracy Pennartz
Kevin Settle
Don Hutchings

City Administrator Carl Geffken

Director of Finance Jennifer Walker

City of Fort Smith, Arkansas

Year Ended December 31, 2017

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INTRODUCTORY SECTION



June 27, 2018

To the Honorable Mayor, Members of the
Board of Directors, and Citizens of
the City of Fort Smith:

Arkansas law allows cities to choose to publish a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. The City has exercised this option. Accordingly, we hereby issue the comprehensive annual financial report (CAFR) of the City of Fort Smith for the fiscal year ended December 31, 2017.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all information presented in this report. To provide a reasonable basis for making these representations, City management has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material aspects.

The City's financial statements have been audited by **BKD, LLP**, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the City's financial statements for the fiscal year ended December 31, 2017 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. **BKD, LLP** concluded, based upon the audit, that there was a reasonable basis for rendering unmodified ("clean") opinions on the financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund and aggregate remaining fund information that collectively comprise the City's basic financial statements as of and for the fiscal year ended December 31, 2017. The independent auditor's report is presented as the first component of the financial section of this report.

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The independent audit of the City's financial statements was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports have been issued separately.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the independent auditor's report in the financial section of this document.

Profile of the City

Fort Smith is located in western Arkansas on the border of Oklahoma and is the second largest city in the state. The City was incorporated in 1842 and is the county seat for Sebastian County. Fort Smith is 159 miles west of Little Rock and 145 miles southeast of Tulsa, Oklahoma. The City serves as the central focus for a six-county economic and trade region in the west central area of Arkansas and the east central area of Oklahoma. The City encompasses 68 square miles and has a population of approximately 88,570. The City is empowered by state statutes to levy real and personal property taxes within its limits and extend the corporate limit by annexation, which occurs periodically when deemed appropriate by the Board of Directors. State statutes also allow the City to levy local sales and use taxes.

Since 1967, the City has operated as a City Administrator form of government. The Mayor and the Board of Directors are elected to staggered, four-year terms. The Mayor and three directors are elected at large and the remaining four directors are elected in representative wards of the City. The Board of Directors is charged with setting policy and enacting laws for the City. The City Administrator is appointed by the Board of Directors and serves as the chief executive officer for the City.

The City provides a full range of services including public safety, construction and maintenance of streets and other infrastructure, parks and recreational activities, water and sewer services, solid waste collection and disposal, public transportation, and administrative services. The City also reports the financial activity for the Advertising and Promotion Commission, the Fort Smith Public Library, the Fort Smith Parking Authority, and the Fort Smith Airport Commission. These four entities are included in the financial statements as discretely presented component units. Additional information on these component units may be found in Note 1 in the notes to the financial statements.

The Board of Directors adopts an annual budget that serves as the City's financial planning document. Control over spending and allocation of resources are a main focus of the budget. The annual budget process begins in June of each year and is usually adopted each December. Appropriation requests by fund, division and department are submitted to the City Administrator and the Director of Finance. Resources are allocated based upon priorities established by the Board of Directors. The legal level of budgetary control is the departmental level. For example, the Police Department is reported as a Public Safety (division) expenditure in the General Fund budget to actual statement located in the required supplementary information in the financial section of this report. The City Administrator is authorized to transfer appropriated amounts within individual funds. However, additional appropriations during the year require approval by the Board of Directors.

Factors Affecting Financial Condition

The information presented in the financial statements may be better understood when considered from a broader perspective of the environment within which Fort Smith's municipal government operates.

Local Economy. Total sales tax revenue in 2017 increased 0.4% over 2016 revenue. This was compared to a 3.6% increase in 2016 over 2015. The local economy growth is slow and positive.

The City has seen significant industrial and residential development. Several major companies have longstanding and growing interests in the region, including Planters, ABB, Umarex USA, Phoenix Metals, and Mars Petcare.

Glatfelter, a Pennsylvania based company completed plans to turn the vacant Mitsubishi plant into a state-of-the-art production facility for air-laid paper products. Glatfelter began production in November 2017 in the Chaffee Crossing facility that will provide approximately 83 jobs.

ArcBest Corporation, a transportation and logistics company, has completed construction of a new corporate headquarters at Chaffee Crossing in Fort Smith. They will invest \$40 million in a 200,000 square foot facility that was completed in 2017. They anticipate adding 975 new jobs to the local economy through 2021.

Silgan Plastic Food Containers plans to invest approximately \$38 million in a 100,000 plus square foot facility which will create 150 new jobs to the area.

The Arkansas Colleges of Health Education (ACHE) opened its first medical college at Chaffee Crossing in Fort Smith in Fall 2017. The Arkansas College of Osteopathic Medicine anticipates graduating 150 doctors of osteopathy annually beginning in 2021. Also in 2017, ACHE announced a second medical college. The 60,000 square foot facility will be called the Arkansas College of Health Sciences and will welcome its first class in 2020.

The Arkansas Air National Guard 188th Fighter Wing learned in 2013 that it would receive a new mission and convert from the manned A-10 aircraft to a remotely piloted aircraft (RPA), targeting and intelligence unit. The 188th is the only organization in the world with RPA, intelligence and targeting at a combined facility and all elements of the new missions should be fully operational out of the City by 2018 or 2019. This change preserves the 1,000 full and part-time jobs associated with the 188th with a mission that is sustainable for the long term as part of the modern Air Force.

Downtown Fort Smith is experiencing a revitalization on various fronts. Propak Logistics purchased and remodeled an unused historic building in downtown Fort Smith as its corporate headquarters. The 24,000 square feet on three floors is used as a mixture of corporate office space, event space and retail. This project, coupled with streetscape projects and other private investment in office, residential, and commercial redevelopment, is representative of the successful resurgence of the downtown area. Additionally, the Unexpected Arts Festival, Riverfront Jazz Festival, and Peacemaker Music Festival are all encouraging signs of growth and interest in the downtown area.

Significant development is underway with a Transportation Investment Generating Economic Recovery (TIGER) grant in partnership with the Arkansas and Missouri Railroad (A&M) to rehabilitate the railroad bridge over the Arkansas River between Van Buren and Fort Smith. Also in 2017, the Western Arkansas Intermodal Authority (WAIA) began preparations for development of an intermodal port on the Arkansas River.

The Fort Smith Regional Chamber of Commerce has organized a regional economic development organization which will include areas of western Arkansas and eastern Oklahoma up to 30 miles from the City. The regional approach will enhance relationships with the two states' economic development agencies, and will offer prospects more choices for potential locations.

Long-Term Financial Planning. In 1985, the City began collecting a one-percent (1%) local sales and use tax to fund its neighborhood and major street improvements. This sales tax is authorized through 2025.

The City also levies an additional one-percent (1%) local sales and use tax which is pledged to redeem bonds issued for large construction projects as well as provide operating resources for the fire and parks departments. The current 2012 Sales and Use Tax Bonds fund an aquatics park in conjunction with Sebastian County that opened in May 2015; a new fire station, existing station upgrades and improvements, and apparatus additions and replacements; wastewater improvements; and water improvements. The 2014 Sales and Use Tax Bonds fund additional water and wastewater improvements. This has proven to be a very effective way to fund projects and the City saves on interest charges because Arkansas sales tax bond issues have mandatory redemption requirements. Three-fourths of the existing 1% local sales tax supports the redemption of the 2012 and 2014 bonds. The remaining one-fourth percent of the tax assessment is used to provide operating and capital costs for the fire department and the parks department.

The City's comprehensive plan includes development and planning in and around Fort Smith. Local developers of planned residential areas outside the City limits continue to request City services. This may provide for future annexation that would increase the City's tax base. The comprehensive plan was updated at the end of 2015. Annual updates to the implementation of the Comprehensive Plan are provided to the Implementation Committee each year.

At the end of 2014, the City entered into a consent decree with the Department of Justice regarding wet weather sewer rehabilitation and improvements. In May 2015, the Board of Directors approved multi-year sewer rate increases to provide for some of the required projects and upgrades to the sewer system.

Other Information

Awards. The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its comprehensive annual financial report (CAFR) for the fiscal year ended December 31, 2016. The Certificate of Achievement is the highest form of recognition for excellence in local government financial reporting. This was the thirty-second consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

Acknowledgements. The preparation of the CAFR on a timely basis was made possible by the dedicated service of the entire staff of the Finance Department. Special recognition is made to Lori Hopkins - Finance Manager and Tracy Keck - Accounting Manager for their efforts. Each member of the department has our sincere appreciation for the contributions made in the preparation of this report.

We also acknowledge the thorough, professional, and timely manner in which the annual audit was conducted and assistance with the CAFR production by **BKD, LLP**.

In closing, we acknowledge the contributions of the Mayor, Board of Directors, Tracey Shockley, Internal Auditor, and the Audit Advisory Committee members who have consistently supported the City's goal of excellence in all aspects of financial management. Their encouragement and support is greatly appreciated.

Respectfully submitted,



Carl Geffken
City Administrator



Jennifer Walker
Director of Finance



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Fort Smith
Arkansas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

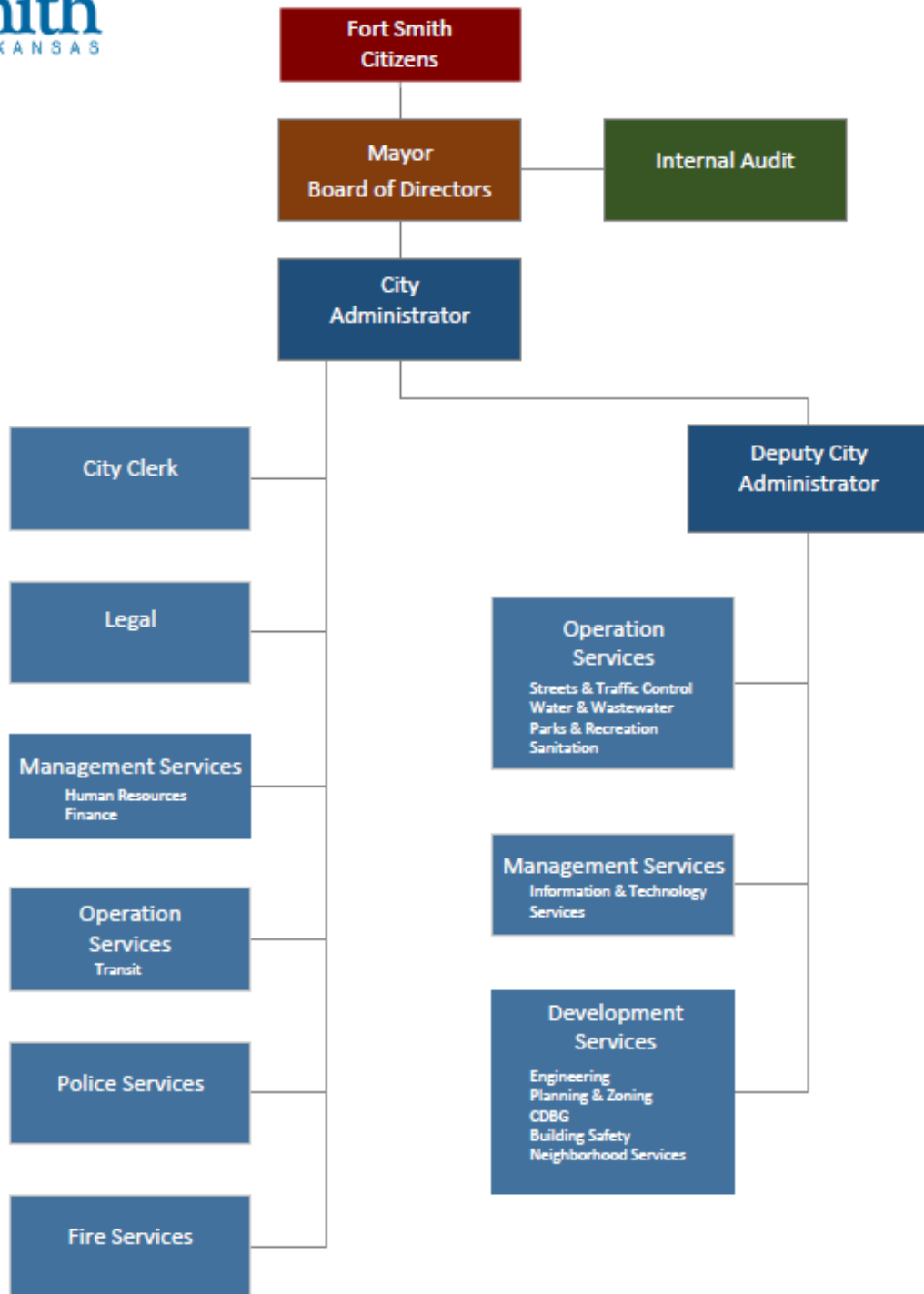
December 31, 2016

Christopher P. Morill

Executive Director/CEO



City of Fort Smith Plan of Organization



City of Fort Smith, Arkansas
List of Elected and Appointed Officials
December 31, 2017

Elected Officials

Mayor	Sandy Sanders
Director-Ward 1	Keith Lau
Director-Ward 2	Andre' Good
Director-Ward 3	Mike Lorenz
Director-Ward 4	George Catsavis
Director at Large	Tracy Pennartz
Director at Large/Vice Mayor	Kevin Settle
Director at Large	Don Hutchings
District Court Judge	Ben Beland
District Court Judge	Claire Borengasser
District Court Judge	David Saxon

Appointed Officials

City Administrator	Carl Geffken
Deputy City Administrator	Jeff Dingman
Advertising and Promotion	Claude Legris
Airport	Michael Griffin
City Clerk	Sherri Gard
Development/Planning	Wally Bailey
District Court	Rachel Sims
Engineering	Stan Snodgrass
Finance	Jennifer Walker
Fire	Phil Christensen
Human Resources	Naomi Roundtree
Information and Technology	Russell Gibson
Internal Audit	Tracey Shockley
Library	Jennifer Goodson
Parks and Recreation	Doug Reinert
Police	Nathanial Clark
Sanitation	Jeff Dingman
Streets and Traffic Control	Matt Meeker
Transit	Ken Savage
Utilities	Jerry Walters

FINANCIAL SECTION

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Independent Auditor's Report

The Honorable Mayor and
Board of Directors
City of Fort Smith, Arkansas
Fort Smith, Arkansas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Fort Smith, Arkansas as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Fort Smith Public Library, a discretely presented component unit of the City, which statements reflect total assets and revenues of \$2,094,993 and \$2,948,803 respectively, and represent 81% and 77% of the aggregate discretely presented governmental activities component units' total assets and revenues at December 31, 2017, and for the year then ended, respectively. Those statements were audited by another auditor, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Fort Smith Public Library, is based solely on the report of the other auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Fort Smith, Arkansas as of December 31, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As discussed in *Note 1* to the financial statements, the City adopted GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* in 2017. Our opinions are not modified with respect to this matter.

Prior Period Adjustment

As discussed in *Note 14* to the financial statements, the 2017 beginning net position of the City has been restated to correct a misstatement. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison, pension and other postemployment benefit information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund statements, introductory section and statistical section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements listed as other information in the table of contents are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section and statistical section listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

The Honorable Mayor and
Board of Directors
City of Fort Smith, Arkansas
Page 4

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

BKD, LLP

Fort Smith, Arkansas
June 27, 2018

City of Fort Smith, Arkansas

Management's Discussion and Analysis

December 31, 2017

The following discussion and analysis of the City of Fort Smith's financial performance provides a narrative overview and analysis of its financial activities for the year ended December 31, 2017. We encourage readers to consider the information presented here in conjunction with additional information we have furnished in our letter of transmittal, which can be found on pages 8-13 of this report.

Financial Highlights

- Primary Government total assets and deferred outflow of resources exceeded total liabilities and deferred inflows of resources at the close of 2017 by \$767.7 million (net position). Of this amount, \$711.7 million was invested in capital assets, net of related debt; \$65.8 million was restricted for debt service, police and fire retirement contributions, construction projects, and other purposes. The component of net position unrestricted and available for meeting the City's emergency and unexpected obligations reported a deficit of \$9.8 million. The City's governmental activities have a deficit in unrestricted net position of \$28.5 million. The City's business-type activities have unrestricted net position of \$18.7 million. The negative unrestricted net position of the governmental activities is due primarily to the \$62.6 million balance in net pension liabilities at year-end.
- The City's total net position increased by \$22.5 million in 2017. Net position of the governmental activities increased by \$18.7 million in 2017 compared to a net increase of \$11.0 million in 2016. The City's net position of the business-type activities increased by \$3.8 million in 2017 compared to a net increase of \$27.9 million in 2016.
- As of the close of 2017, the City's governmental funds reported combined ending fund balances of \$76.3 million that was a decrease of \$1.3 million from the prior year. The restricted portion of the fund balances is \$52.8 million. The remaining fund balances is classified as nonspendable of \$0.8 million; assigned of \$6.7 million; and unassigned of \$16.0 million.
- At the end of 2017, the unassigned fund balance for the General Fund was \$16.0 million or 27.9% of total General Fund expenditures. There was a decrease of \$1.2 million in Total General Fund balance between years.
- The City's total bonded indebtedness decreased by \$18.6 million during the current year. The City did not issue any bonds in 2017. The decreases is due to the maturity of outstanding bonds during 2017 and the call of \$5.150 million in Sales and Use Tax bonds during the year.
- The City's governmental component units reported net position of \$1.1 million at December 31, 2017 which was an \$11 thousand increase over 2016.
- The City's business-type component units reported net position of \$40.7 million at December 31, 2017 which was a \$.03 million decrease from 2016.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains required and other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to private-sector business.

The *statement of net position* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses reported in this statement for some items will only result in cash flows in future fiscal periods (*e.g.*, uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees or charges (business-type activities). The governmental activities of the City include general government, public safety, public works, community service, and debt service. The business-type activities of the City include the water and sewer system and the solid waste disposal system.

The government-wide financial statements include not only the City itself (known as the primary government), but also, the following legally separate entities for which the City is financially accountable:

- Parking Authority
- Fort Smith Public Library
- Advertising and Promotion Commission
- Airport Commission

Financial information for these *component units* are reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 34-37 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains 12 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Street Maintenance Fund, Sales Tax Fund, Sales and Use Tax Construction Fund, and the Sales and Use Tax Bond Fund that are considered to be major funds. Data from the other seven (7) governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The basic governmental fund financial statements can be found on pages 38-42 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses Enterprise Funds to account for its water and sewer system and its solid waste system. *Internal Service Funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions for fuel and duplicating services, medical, dental and life insurance benefits, and workers' compensation claims. The services provided by the internal service funds predominantly benefit the governmental rather than the business-type functions. They have been allocated between the *governmental activities* and the *business type activities* in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The proprietary fund financial statements provide separate information for the Water and Sewer Fund and the Sanitation Fund, both of which are considered to be major funds of the City. The Working Capital, Employee Insurance and Workers' Compensation Funds are the City's internal service funds and are reported in a single aggregated presentation.

The basic proprietary fund financial statements can be found on pages 44-49 of this report.

Fiduciary fund. The City maintains a fiduciary fund for its OPEB plan trust that is held for the purpose of providing future medical claims of retirees that become participants. The plan trust is an irrevocable trust entered into by the City during 2009 for benefit of its participants.

The fiduciary fund financial statements can be found on pages 50-51 of this report.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 52-130 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's General Fund budget, the City's Street Maintenance Fund budget and an analysis of funding progress for the City's fire and police pension plans. The City adopts an annual appropriation budget for its General Fund and its Street Maintenance Fund. Budgetary comparison schedules have been provided for the General Fund and the Street Maintenance Fund to demonstrate compliance with the annual budgets. *Required supplementary information* can be found on pages 132-147 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information. Combining statements and schedules can be found on pages 151-165 of this report.

Government-Wide Financial Analysis

The 2016 financial statements were not restated for the prior period adjustment to the 2017 beginning net position. Additional information for the prior period adjustment can be found in *Note 14* on pages 129-130 of this report.

City of Fort Smith Net Position						
	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 100,051,378	\$ 102,968,915	\$ 82,248,021	\$ 81,599,961	\$ 182,299,399	\$ 184,568,876
Capital assets	411,719,716	402,620,283	550,163,010	556,407,851	961,882,726	959,028,134
Total assets	511,771,094	505,589,198	632,411,031	638,007,812	1,144,182,125	1,143,597,010
Total deferred outflows of resources	13,490,239	13,939,722	2,856,546	3,216,819	16,346,785	17,156,541
Long-term liabilities	166,537,967	176,568,846	190,504,042	195,650,921	357,042,009	372,219,767
Other liabilities	16,811,388	21,575,950	16,797,224	12,179,341	33,608,613	33,755,291
Total liabilities	183,349,356	198,144,796	207,301,266	207,830,262	390,650,622	405,975,058
Total deferred inflows of resources	2,051,411	205,112	124,621	176,298	2,176,032	381,410
Net position:						
Net investment in capital assets	326,142,910	310,422,734	385,564,986	397,064,645	711,707,896	707,487,379
Restricted	42,226,867	49,252,066	23,581,225	23,582,119	65,808,092	72,834,185
Unrestricted	(28,509,210)	(38,495,788)	18,695,478	12,571,307	(9,813,732)	(25,924,481)
Total net position	\$ 339,860,567	\$ 321,179,012	\$ 427,841,689	\$ 433,218,071	\$ 767,702,256	\$ 754,397,083

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City's assets and deferred outflow of resources exceeded liabilities and deferred inflows of resources by \$767.7 million at the close of 2017.

The largest portion of the City's net position \$711.7 million or 92.7% reflects its investment in capital assets (*e.g.* land, buildings, improvements other than buildings, machinery and equipment, and infrastructure), plus unspent bond proceeds, less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (8.6%) represents resources that are subject to restrictions as to how they may be used. Of the total \$65.8 million restricted net position, \$38.7 million is restricted for bond retirement, \$27.0 million is restricted for construction projects and a very small amount is restricted for other purposes. The remaining balance of net position is a negative \$9.8 million. The decrease in net position is due primarily in changes in the presentation of pension liabilities.

The business-type activities reported positive balances in unrestricted net position at the end of the current year, as was the case in the prior year.

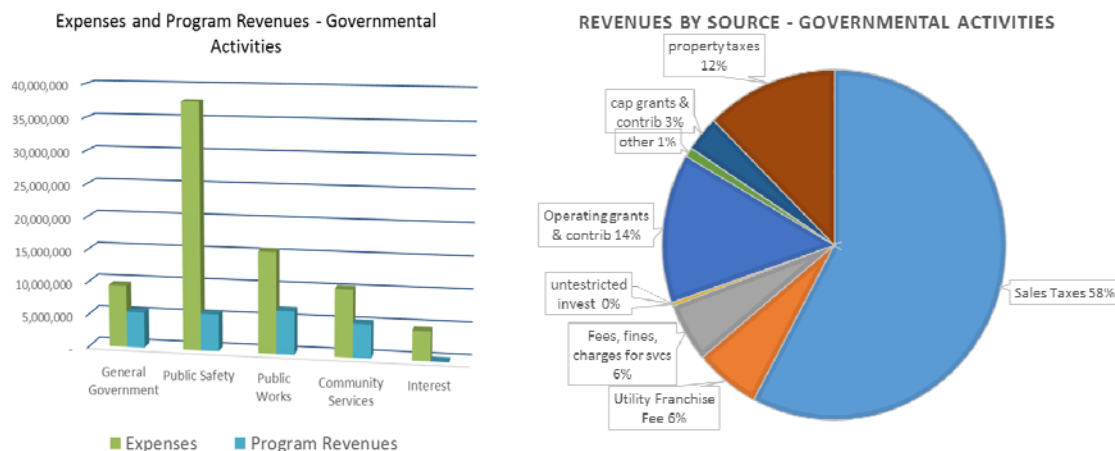
The City's net position increased by \$22.5 million during 2017. Total revenues decreased 4.3% between years. Revenues generated by fees, fines, and charges for services increased by 1.8%. Sales tax revenue on a government-wide basis increased by .35%. Additionally, capital grants and contributions decreased \$9 million or 72.9%.

City of Fort Smith Changes in Net Position						
	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
Program revenues						
Fees, fines, and charges for services	\$ 5,572,301	\$ 5,819,255	\$ 69,659,743	\$ 68,062,838	\$ 75,232,044	\$ 73,882,093
Operating grants and contributions	13,072,923	13,482,510	-	-	13,072,923	13,482,510
Capital grants and contributions	3,343,621	12,349,015	-	-	3,343,621	12,349,015
	<u>21,988,845</u>	<u>31,650,780</u>	<u>69,659,743</u>	<u>68,062,838</u>	<u>91,648,588</u>	<u>99,713,618</u>
General revenues						
Property taxes	12,674,326	12,255,857	-	-	12,674,326	12,255,857
Sales taxes	59,100,140	58,893,332	-	-	59,100,140	58,893,332
Utility franchise fees	6,304,008	5,974,790	-	-	6,304,008	5,974,790
Unrestricted investment earnings	317,642	64,861	401,542	193,749	719,184	258,610
Other	<u>1,618,293</u>	<u>2,043,676</u>	<u>762,982</u>	<u>350,917</u>	<u>2,381,275</u>	<u>2,394,593</u>
Total revenues	<u>102,003,254</u>	<u>110,883,296</u>	<u>70,824,267</u>	<u>68,607,504</u>	<u>172,827,521</u>	<u>179,490,800</u>
Expenses						
General government	9,813,976	9,334,980	-	-	9,813,976	9,334,980
Public safety	37,685,158	39,229,896	-	-	37,685,158	39,229,896
Public works	16,485,834	15,992,699	-	-	16,485,834	15,992,699
Community services	10,813,088	10,593,837	-	-	10,813,088	10,593,837
Interest on long-term debt	4,528,084	4,390,585	-	-	4,528,084	4,390,585
Water and sewer	-	-	56,118,174	49,436,840	56,118,174	49,436,840
Sanitation	<u>-</u>	<u>-</u>	<u>14,930,172</u>	<u>11,623,625</u>	<u>14,930,172</u>	<u>11,623,625</u>
Total expenses	<u>79,326,140</u>	<u>79,541,996</u>	<u>71,048,345</u>	<u>61,060,465</u>	<u>150,374,485</u>	<u>140,602,461</u>
Change in net position before transfers and capital contributions	22,677,114	31,341,300	(224,078)	7,547,039	22,453,036	38,888,339
Transfers	<u>(3,995,559)</u>	<u>(20,323,854)</u>	<u>3,995,559</u>	<u>20,323,854</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	18,681,555	11,017,446	3,771,481	27,870,893	22,453,036	38,888,339
Net Position – January 1	<u>321,179,012</u>	<u>310,161,566</u>	<u>433,218,071</u>	<u>405,347,178</u>	<u>754,397,083</u>	<u>715,508,744</u>
Prior Period Adjustment (Note 14)	<u>-</u>	<u>-</u>	<u>(9,147,863)</u>	<u>-</u>	<u>(9,147,863)</u>	<u>-</u>
Net Position - January 1, as Restated	<u>321,179,012</u>	<u>310,161,566</u>	<u>424,070,208</u>	<u>405,347,178</u>	<u>745,249,220</u>	<u>715,508,744</u>
Net Position – December 31	<u>\$ 339,860,567</u>	<u>\$ 321,179,012</u>	<u>\$ 427,841,689</u>	<u>\$ 433,218,071</u>	<u>\$ 767,702,256</u>	<u>\$ 754,397,083</u>

Governmental Activities. Governmental activities increased the City's net position by \$18.7 million. Key elements of the net decrease are as follows:

- Total revenues for 2017 exceeded total expenses by \$18.7 million.
- Net capital asset acquisition exceeded depreciation by \$15.1 million. This was offset by the \$4.4 million capital contribution to the Water and Sewer Fund for wastewater improvements provided by the Sales & Use Tax Construction Fund.
- Sales tax revenue allocated for governmental purposes reflects a .35% increase between years. The City's share of the county sales tax, accounted for in the General Fund, increased .67% in 2017 over 2016. The City's sales tax that is allocated for street projects and accounted for in the Sales Tax Fund increased .22% between 2016 and 2017, as did the city sales tax allocated for redemption of the Sales and Use Tax Bonds, Series 2012 and 2014, and fire and parks operations.
- Utility franchise fee revenues increased by \$0.3 million or 5.5% during 2017 due to increased natural gas and electric usage between years.

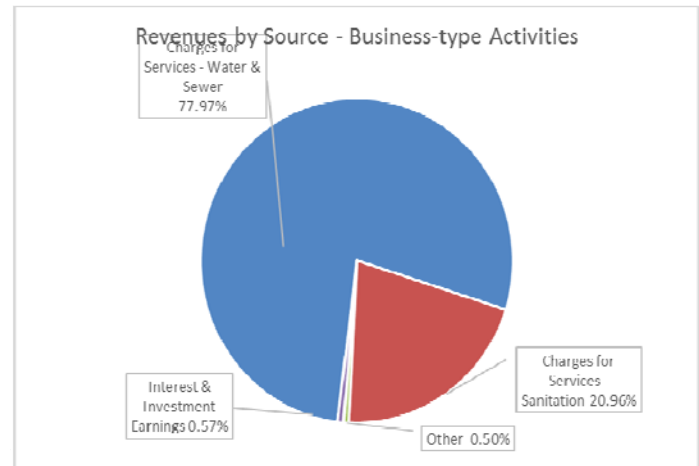
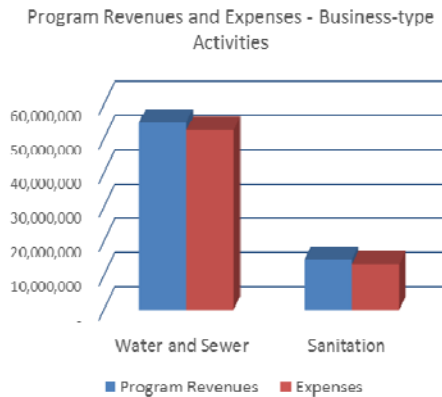
The reported 2017 expenses were approximately \$2.1 million less than in 2016. The decrease resulted from concerted efforts to reduce spending in general government which lead to an overall decrease in spending in Administration, Finance and Parks departments.



Business-Type Activities. Business-type activities increased the City's net position by \$3.8 million. Key elements of the increase are as follows:

- The water and sewer system contributed \$3.6 million to the increase in total net position. The operating income for the system totaled \$13.4 million in 2017.
- The solid waste system added \$8.5 thousand to the increase in total net position. The operating income for the system in 2017 totaled \$200 thousand. A prior period adjustment was posted to correct landfill depreciation and accumulated calculations. The impact to the Sanitation Fund totaled \$9.1 million.
- Water and sewer system service charges contribute 78.8% of the operating revenue to business-type activities.
- The solid waste system service charges accounted for 21.2% of the revenue to business-type activities.

- Current year revenues for the business-type activities exceeded operating expenses by \$3.6 million. This is due primarily to the increase in sewer rates. Water and Sewer and Sanitation operating expenses increased during 2017 due to an increase of \$1.9 million in contractual service fees under the City's Consent Decree.



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance related requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of December 31, 2017, the City's governmental funds reported combined ending fund balances of \$76.3 million, a decrease of \$1.2 million in comparison with the prior year. Of this amount, \$52.8 million represents restricted fund balance for construction projects, debt service coverage, police and fire retirement contributions, and other purposes. Approximately \$0.8 million of the fund balances is non-spendable. A portion of the fund balance, \$6.7 million, is assigned for specific uses by the City. The remainder of the balance, \$16.0 million, is unassigned in the General Fund and is available for spending at the government's discretion.

The General Fund is the chief operating fund of the City. At December 31, 2017, unassigned fund balance of the General Fund was \$16.0 million, while the total fund balance was \$17.3 million. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balances and total fund balances to total fund expenditures, including transfers out. Unassigned fund balances represent 37% of total General Fund expenditures, including transfers out, while total fund balances represents 15.2% of that same amount. There was an increase of \$2.4 in total General Fund balance between years. This increase is explained in the Financial Highlights on page 23.

Key factors during the year are as follows:

- Revenues increased \$0.3 million in 2017 as compared to 2016. The most significant increases occurred in taxes (\$0.4 million) and in utility franchise fees (\$0.3 million). These increases were offset by decreases in court fines and forfeiture (\$0.2 million) and miscellaneous revenue (\$0.3 million).
- Total expenditures increased \$2.4 million between 2016 and 2017. The increase was due to additional legal and court costs (\$0.2 million); additional transit operations (\$0.2 million); and higher capital acquisitions (\$2.2 million). These increases were offset by decreases in the police operations (\$0.4 million) and parks operations (\$0.1 million).

The Street Maintenance Fund and the Sales Tax Fund, both special revenue funds, are presented as major funds and account for 43.8% of the total governmental fund balances. Revenues include a one-percent (1%) local sales tax dedicated to streets, bridges and associated drainage, as well as gasoline tax and highway sales tax turnback from the state and federal transportation grants. The fund balance for these two funds remained stable between years.

Proprietary funds. The City's proprietary funds provide the same information found in the government-wide financial statements, but with more detail.

Net position at the end of the year amounted to \$402.6 million and \$24.4 million for the Water and Sewer Fund and the Sanitation Fund, respectively. The increase in net position was \$3.6 million for the Water and Sewer Fund and \$8.5 thousand for the Sanitation Fund. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

Budgetary Highlights

General Fund. The final amended General Fund budget had total appropriations of \$45.8 million (total expenditures plus transfers out) compared to the original budget total of \$46.4 million. The decrease in appropriations of \$651,000 is summarized briefly as follows:

- Reductions to Police and Fire departments (\$373,000) due to personnel vacancies and operations savings.
- Reductions to Parks and Recreation department (\$331,000) due to operations savings.

Revenue estimates for the General Fund were increased from an original budget of \$41.5 million (total revenues plus transfers in) to the final estimate of \$41.6 million. The \$0.1 million increase was due to higher property taxes of \$237,000 higher franchise fees of \$350,000 and an increase in sales tax. These increases were offset by \$926,000 decrease in intergovernmental.

Total actual revenue, including, "other financing sources", for the General Fund was \$45.6 million or \$4.0 million more than the final budget estimates. The increased revenues were due to increases in sales taxes of \$5 million; further increases in franchise fee revenue of \$203,000; higher property tax revenues of \$544,000; and additional intergovernmental revenue of \$500,000. These increases were offset by a decrease in licenses and permits of \$18,000 and an unexpected decrease of \$367,000 in court fines and forfeitures. Total actual expenditures were \$232,000 less than the final appropriated budget of the General Fund. Most departments were consistently lower than budget due to administrative direction to reduce spending where possible. This was offset by increased capital outlay due to a buildup of multi-year project funds within the parks department.

The budget and actual schedule for the General Fund may be found on page 145 in the required supplementary section of this document.

Capital Assets and Debt Administration

Capital assets. The City's investment in capital assets for governmental and business-type activities as of December 31, 2017 amounts to \$961.9 million, net of accumulated depreciation. This investment in capital assets includes land, buildings, water and sewer systems, improvements other than buildings, machinery and equipment, park and library facilities, streets, and drainage systems. The total increase in the City's investment in capital assets was 0.3%, a 2.3% increase for governmental activities and a 1.1% decrease for business-type activities.

City of Fort Smith

Capital Assets, Net of Accumulated Depreciation

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 27,150,846	\$ 27,175,288	\$ 14,261,392	\$ 13,461,692	\$ 41,412,238	\$ 40,636,980
Buildings	57,547,467	59,385,122	5,347,013	3,853,240	62,894,480	63,238,362
Water System	-	-	283,068,274	271,244,304	283,068,274	271,244,304
Sewer System	-	-	208,760,945	181,927,974	208,760,945	181,927,974
Improvement other than buildings	9,587,064	8,441,631	2,345,688	12,228,448	11,932,752	20,670,079
Infrastructure	263,231,933	258,106,549	-	-	263,231,933	258,106,549
Machinery and equipment	20,260,953	21,210,466	13,391,715	11,767,166	33,652,668	32,977,632
Construction in progress	33,941,453	28,301,227	22,987,983	61,925,027	56,929,436	90,226,254
Total	<u>\$ 411,719,716</u>	<u>\$402,620,283</u>	<u>\$550,163,010</u>	<u>\$556,407,851</u>	<u>\$ 961,882,726</u>	<u>\$959,028,134</u>

Major capital asset events during 2017 included the following:

- Net additions to construction in progress totaled negative \$33.3 million. Of this amount, water and wastewater improvements accounted for a decrease of \$38.4 million, sanitation decreased \$4 million and the general government and streets increased by \$5.4 million.
- Net additions to infrastructure totaled \$5.1 million due to the completion of several street projects during 2017.
- Net additions to the sewer system totaled \$26.8 million and to the water system totaled \$11.8 million in 2017.
- Depreciation expense totaled \$32.3 million.

Additional information on the City's capital assets can be found in *Note 3* on pages 70-78 of this report.

Long-term debt. At December 31, 2017, the City had \$253.3 million of long-term bonds outstanding, including \$168.9 million of bonds secured solely by specified revenue sources, (*i.e.* revenue bonds).

City of Fort Smith's Outstanding Debt General Obligation and Revenue Bonds

	Governmental Activities		Business-Type Activities	
	2017	2016	2017	2016
Sales and Use Tax Bonds	\$ 84,400,000	\$ 96,720,000	\$ -	\$ -
Revenue Bonds	-	-	168,905,000	175,180,000
Total	<u>\$ 84,400,000</u>	<u>\$ 96,720,000</u>	<u>\$ 168,905,000</u>	<u>\$ 175,180,000</u>

The City's total bonded debt decreased by \$18.595 million or 7% during 2017. Key factors in this decrease was the scheduled bond maturities during 2017 as well as the call of \$5.150 million in Sales and Use Tax bonds during 2017. The City maintains bond ratings as follows: an "A" rating from Standard & Poor's on its water and sewer revenue bonds series 2005B, 2007, 2008, 2011 and 2012; an "AA" rating from Standard & Poor's on its water and sewer revenue bonds series 2016; and an "AA" rating from Standard & Poor's on its sales and use tax bonds series 2012 and 2014.

State statutes limit the amount of general obligation bonds a government entity may issue to 25% of its total assessed valuation. The current debt limitation for the City is \$337.7 million. The City has no general obligation debt at December 31, 2017. Sales and use tax bonds are special debt of the City and are not considered general obligation bonds.

Additional information regarding the City's long-term debt can be found in *Note 4* on pages 79-91 of this report.

Economic Factors and the Next Year's Budget and Rates

- The year-end unemployment rate for the City was 3.5%, which was lower than the 4.3% rate for 2016. The state unemployment rate for 2017 was 3.7% and the national was 4.1%. The City is recovering from a down economy over the past few years.
- The City expects a 1.0% increase in its tax revenue for the coming year.

These factors were considered when the City prepared its 2018 Budget.

The Board of Directors had two main goals going into the 2018 budget year – maintain a 15% fund balance, contribute additional funds to the LOPFI fund for fire and police pension plans and provide a Cost of Living increase for the employees. The City's General Fund budget for 2018 was approved at \$43.9 million for regular programs and \$5.4 million for Sales Tax programs. Continued efforts are being made to control spending and reduce costs where appropriate.

Request for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance's Office, Suite 512, 623 Garrison Avenue, Fort Smith, Arkansas 72903

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City of Fort Smith, Arkansas
Statement of Net Position
December 31, 2017

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities
Assets					
Cash	\$ 3,386,161	\$ 2,173,307	\$ 5,559,468	\$ 713,831	\$ 1,846,668
Investments	58,789,260	52,101,628	110,890,888	723,223	2,391,107
Receivables, net					
Taxes	13,995,496	-	13,995,496	52,961	-
Sales taxes	3,593,761	-	3,593,761	161,805	-
Accounts	588,668	7,634,660	8,223,328	99,712	166,291
Interest	8,602	6,023	14,625	71	8,783
Due from other governments	1,804,157	-	1,804,157	-	133,242
Internal balances	594,205	(594,205)	-	-	-
Inventories	-	1,240,357	1,240,357	-	54,181
Prepays and deposits	932,534	34,957	967,491	52,644	66,472
Restricted assets					
Cash	225,621	217,258	442,879	-	424,414
Investments	14,762,317	19,036,067	33,798,384	-	505,658
Accounts receivable, net	-	219,707	219,707	-	-
Sales tax receivable	1,329,473	-	1,329,473	-	-
Interest receivable	41,122	4,051	45,173	-	85
Prepaid items and deposits	-	174,212	174,212	-	-
Capital assets, net					
Nondepreciable	61,092,299	37,249,375	98,341,674	427,132	8,931,736
Depreciable	350,627,417	512,913,635	863,541,052	361,851	28,535,912
Total Assets	511,771,094	632,411,031	1,144,182,125	2,593,230	43,064,549
Deferred Outflows of Resources					
Deferred amounts on refunding	-	2,856,546	2,856,546	-	88,323
Deferred outflows-pension	7,674,953	-	7,674,953	393,691	-
Deferred outflows-pension contributions	5,815,286	-	5,815,286	95,945	-
Total deferred outflows of resources	13,490,239	2,856,546	16,346,785	489,636	88,323

City of Fort Smith, Arkansas
Statement of Net Position (Continued)
December 31, 2017

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities
Liabilities					
Accounts payable and accrued expenses	\$ 6,457,211	\$ 4,839,764	\$ 11,296,975	\$ 111,038	\$ 363,924
Other	764,077	2,496	766,573	-	-
Accrued interest	567,933	3,848,106	4,416,039	-	-
Deposits	-	544,770	544,770	-	-
Unearned revenue	289,714	-	289,714	-	-
Noncurrent liabilities					
Other long-term liabilities					
due within one year	1,317,453	512,088	1,829,542	-	7
Current portion of long-term debt	7,415,000	7,050,000	14,465,000	-	200,000
Due in more than one year	166,537,967	190,504,042	357,042,009	1,718,177	1,910,654
Total liabilities	183,349,356	207,301,266	390,650,622	1,829,215	2,474,585
Deferred Inflows of Resources					
Deferred amounts on refunding	-	124,621	124,621	-	-
Deferred inflows-pension	2,051,411	-	2,051,411	153,267	-
Total deferred inflows of resources	2,051,411	124,621	2,176,032	153,267	-
Net Position					
Net investment in capital assets	326,142,910	385,564,986	711,707,896	788,983	35,445,971
Restricted for:					
Construction projects	26,405,397	625,471	27,030,868	-	58,623
Debt service	15,790,600	22,955,754	38,746,354	-	382,419
Parks & recreation	25,531	-	25,531	-	-
Housing and rehabilitation	5,339	-	5,339	-	-
Police & fire retirement contributions	-	-	-	-	-
Other purposes	-	-	-	457,565	-
Unrestricted	(28,509,210)	18,695,478	(9,813,732)	(146,164)	4,791,274
Total net position	\$ 339,860,567	\$ 427,841,689	\$ 767,702,256	\$ 1,100,384	\$ 40,678,287

City of Fort Smith, Arkansas

Statement of Activities

For the Year Ended December 31, 2017

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Units	
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Governmental Activities	Business-Type Activities
					Governmental Activities	Business-Type Activities	Total		
Primary Government:									
Governmental Activities									
General Government									
Administration	\$ 5,137,994	\$ 857,537	\$ 1,286,459	\$ -	\$ (2,993,998)		\$ (2,993,998)		
Legal and courts	2,434,563	2,094,963	491,432	-	151,832		151,832		
Finance	2,241,419	744,996	-	-	(1,496,423)		(1,496,423)		
Public safety									
Police	19,946,995	114,162	2,630,534	10,207	(17,192,092)		(17,192,092)		
Fire	17,738,163	92,130	1,730,024	106,537	(15,809,472)		(15,809,472)		
Public works									
Operations	528,612	-	-	-	(528,612)		(528,612)		
Streets	13,373,451	346,439	4,071,061	2,223,512	(6,732,439)		(6,732,439)		
Traffic Control	2,583,771	-	-	-	(2,583,771)		(2,583,771)		
Community services									
Health and Social Services	138,898	-	-	-	(138,898)		(138,898)		
Parks and Recreation	4,081,372	262,543	-	264,884	(3,553,945)		(3,553,945)		
Convention Center	2,150,044	861,607	-	-	(1,288,437)		(1,288,437)		
Transit	2,560,795	197,924	986,139	738,481	(638,251)		(638,251)		
Housing and Rehabilitation	1,881,979	-	1,877,274	-	(4,705)		(4,705)		
Debt service									
Interest	4,528,084	-	-	-	(4,528,084)		(4,528,084)		
Total Governmental Activities	79,326,140	5,572,301	13,072,923	3,343,621	(57,337,295)		(57,337,295)		
Business-Type Activities:									
Water and Sewer	56,118,174	54,902,198	-	-	-	\$ (1,215,976)	(1,215,976)		
Sanitation	14,930,172	14,757,545	-	-	-	(172,627)	(172,627)		
Total Business-Type Activities	71,048,345	69,659,743	-	-	-	(1,388,602)	(1,388,602)		
Total Primary Government	\$ 150,374,485	\$ 75,232,044	\$ 13,072,923	\$ 3,343,621	\$ (57,337,295)	\$ (1,388,602)	\$ (58,725,897)		
Component Units:									
Governmental									
Advertising & Promotion	\$ 752,829	\$ -	\$ 3,350	\$ -				\$ (749,479)	
Public Library	3,043,864	190,177	144,663	-				(2,709,024)	
Subtotal	3,796,693	190,177	148,013	-				(3,458,503)	
Business-Type									
Parking Authority	188,586	152,718	-	-					\$ (35,868)
Airport	5,019,180	2,890,004	-	1,813,577				(315,599)	
Subtotal	5,207,766	3,042,722	-	1,813,577				(351,467)	
Total Component Units	\$ 9,004,459	\$ 3,232,899	\$ 148,013	\$ 1,813,577				(3,458,503)	(351,467)

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas
Statement of Activities (Continued)
For the Year Ended December 31, 2017

	Net (Expense) Revenue and Changes in Net Position				
	Primary Government			Component Units	
	Governmental	Business-Type	Total	Governmental	Business-Type
	Activities	Activities		Activities	Activities
General revenues					
Property taxes	\$ 12,674,326	\$ -	\$ 12,674,326	\$ 1,422,872	\$ -
Sales taxes	59,100,140	-	59,100,140	1,001,511	-
Gross receipts utility franchise fees	6,304,008	-	6,304,008	-	-
Hospitality taxes	-	-	-	853,764	-
Unrestricted investment earnings	317,642	401,542	719,184	2,518	26,777
Other	1,618,293	762,982	2,381,275	188,631	-
Transfers	(3,995,559)	3,995,559	-	-	-
Total general revenues and transfers	76,018,850	5,160,083	81,178,933	3,469,296	26,777
Change in net position	18,681,555	3,771,481	22,453,036	10,793	(324,690)
Net position, beginning of year, as previously reported	321,179,012	433,218,071	754,397,083	1,089,591	41,002,977
Prior period adjustment (<i>Note 14</i>)	-	(9,147,863)	(9,147,863)	-	-
Net position, beginning of the year, as restated	321,179,012	424,070,208	745,249,220	1,089,591	41,002,977
Net position, end of year	\$ 339,860,567	\$ 427,841,689	\$ 767,702,256	\$ 1,100,384	\$ 40,678,287

City of Fort Smith, Arkansas

Balance Sheet – Governmental Funds

December 31, 2017

	General	Street Maintenance	Sales Tax	Sales & Use Tax Bond	Other Governmental Funds	Total Governmental Funds
Assets						
Cash	\$ 1,765,364	\$ 15,719	\$ 5,778	\$ -	\$ 984,382	\$ 2,771,243
Investments	13,000,238	2,954,284	29,347,504	-	10,405,776	55,707,802
Receivables, net of allowance for uncollectibles						
Taxes	8,853,879	2,203,550	-	-	2,938,067	13,995,496
Sales taxes	1,821,131	-	1,772,630	-	-	3,593,761
Accounts	465,968	-	-	-	95,656	561,624
Accrued interest	2,451	498	4,956	-	89	7,994
Due from other funds	61,264	-	-	-	-	61,264
Due from other governments	720,063	493,611	233,223	-	357,260	1,804,157
Restricted assets:						
Cash	-	-	-	225,621	-	225,621
Investments	-	-	-	14,762,317	-	14,762,317
Sales taxes receivable	-	-	-	1,329,473	-	1,329,473
Interest receivable	-	-	-	41,122	-	41,122
Prepaid items	171,314	-	-	-	504,041	675,355
Deposits	18,786	-	136,995	-	-	155,781
Total Assets	\$ 26,880,458	\$ 5,667,662	\$ 31,501,086	\$ 16,358,533	\$ 15,285,271	\$ 95,693,010
Liabilities, Deferred Inflows of Resources, and Fund Balances						
Liabilities:						
Accounts payable and accrued liabilities	\$ 2,326,028	\$ 320,003	\$ 1,175,677	\$ -	\$ 2,347,497	\$ 6,169,205
Retainage payable	72,179	-	121,160	-	6,142	199,481
Due to other funds	-	-	-	-	61,128	61,128
Unearned revenue	-	-	-	-	289,714	289,714
Other	193,452	-	-	567,933	2,692	764,077
Total Liabilities	2,591,659	320,003	1,296,837	567,933	2,707,173	7,483,605
Deferred Inflows of Resources						
Unavailable property taxes	6,993,631	2,098,089	-	-	2,797,452	11,889,172
Total deferred inflows of resources	6,993,631	2,098,089	-	-	2,797,452	11,889,172
Fund Balances:						
Nonspendable	190,100	-	136,995	-	504,041	831,136
Restricted for:						
Construction projects	-	143,975	30,067,254	-	101,653	30,312,882
Debt service	-	-	-	15,790,600	-	15,790,600
Parks & recreation	-	-	-	-	25,531	25,531
Housing and rehabilitation	-	-	-	-	5,339	5,339
Police & fire retirement contributions	-	-	-	-	6,712,087	6,712,087
Assigned to:						
Convention center	-	-	-	-	2,431,995	2,431,995
Construction projects	1,058,723	-	-	-	-	1,058,723
Other purposes	63,029	3,105,595	-	-	-	3,168,624
Unassigned	15,983,316	-	-	-	-	15,983,316
Total Fund Balances	17,295,168	3,249,570	30,204,249	15,790,600	9,780,646	76,320,233
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 26,880,458	\$ 5,667,662	\$ 31,501,086	\$ 16,358,533	\$ 15,285,271	\$ 95,693,010

City of Fort Smith, Arkansas
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
December 31, 2017

Total fund balances – governmental funds \$ 76,320,233

Amounts reported for governmental activities in the statement of net position
are different because:

Capital assets used in governmental activities are not financial resources
and, therefore, are not reported in the funds. These assets consist of:

Land	\$ 27,150,846	
Buildings	86,575,564	
Improvements other than buildings	20,418,282	
Machinery and equipment	49,074,218	
Infrastructure	394,704,259	
Accumulated depreciation	(200,144,906)	
	377,778,263	
Construction in progress	33,941,453	
	\$ 411,719,716	411,719,716

Some revenues in the governmental funds are deferred because they are
not collected within the prescribed time period after year end and are not
considered available. On the accrual basis, however, those revenues would
be recognized regardless of when they are collected. 11,889,172

Deferred inflows and outflows related to pensions are not due and payable
in the current period and, therefore, are not reported in the funds. 11,438,828

Internal service funds are used by management to charge the costs of
certain activities, such as fuel and insurance, to individual funds. A portion
of the assets and liabilities are included in governmental activities in the
statement of net position. 3,213,356

Some long-term liabilities are not due and payable in the current period and,
therefore, are not reported in the funds. Those liabilities consist of:

Compensated absences	\$ 1,978,716	
Claims payable	82,500	
Sales tax bonds payable, net	88,916,358	
Interest payable	567,933	
Net pension liabilities	62,573,908	
OPEB liabilities	20,601,323	
	\$ 174,720,738	(174,720,738)

Net position of governmental activities \$ 339,860,567

City of Fort Smith, Arkansas
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
For the Year Ended December 31, 2017

	General	Street Maintenance	Sales Tax	Sales & Use Tax Bond	Other Governmental Funds	Total Governmental Funds
Revenues						
Taxes	\$ 7,631,784	\$ 2,235,463	\$ -	\$ -	\$ 2,982,094	\$ 12,849,341
Sales taxes	21,992,890	-	21,204,143	15,903,107	-	59,100,140
Licenses and permits	1,602,533	227,067	-	-	-	1,829,600
Utility franchise fees	6,304,008	-	-	-	-	6,304,008
Intergovernmental	4,366,994	5,933,311	-	-	3,774,845	14,075,150
Fines and forfeitures	1,974,709	-	-	-	111,654	2,086,363
Fees for services	590,549	-	-	-	861,607	1,452,156
Interest	171,638	9,042	119,372	134,508	61,114	495,674
Decrease in fair value of investments	-	-	-	(53,526)	-	(53,526)
Contributions	231,796	-	361,262	-	1,748,336	2,341,394
Miscellaneous	424,026	90,853	1	-	70,705	585,585
Total Revenues	45,290,927	8,495,736	21,684,778	15,984,089	9,610,355	101,065,885
Expenditures						
Current:						
General government						
Administration	1,615,132	183,496	1,611,127	-	-	3,409,755
Legal and courts	2,105,055	130,480	138,793	-	-	2,374,328
Finance	1,055,777	402,022	771,080	-	-	2,228,879
Public safety						
Police	13,960,409	-	-	-	2,993,385	16,953,794
Fire	12,002,766	-	-	-	3,888,185	15,890,951
Public works						
Operations	-	518,535	-	-	-	518,535
Streets	-	3,430,311	-	-	-	3,430,311
Traffic Control	-	2,034,367	-	-	-	2,034,367
Community services						
Health and Social Services	130,156	-	-	-	-	130,156
Parks and Recreation	2,210,541	175,177	-	-	11,425	2,397,143
Convention Center	-	-	-	-	1,434,991	1,434,991
Transit	2,116,300	-	-	-	-	2,116,300
Housing and Rehabilitation	-	-	-	-	1,868,887	1,868,887
Other	1,518,380	-	-	25,300	-	1,543,680
Capital Outlay	4,583,779	844,335	20,741,720	-	4,246,002	30,415,836
Debt Service:						
Principal	-	-	-	12,320,000	-	12,320,000
Interest	-	-	-	4,138,267	-	4,138,267
Total Expenditures	41,298,295	7,718,723	23,262,720	16,483,567	14,442,875	103,206,180
Excess (deficiency) in revenues over (under) expenditures	3,992,632	777,013	(1,577,942)	(499,478)	(4,832,520)	(2,140,295)

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (Continued)
For the Year Ended December 31, 2017

	General	Street Maintenance	Sales Tax	Sales & Use Tax Bond	Other Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses)						
Transfers in	\$ 276,002	\$ -	\$ 828,244	\$ -	\$ 1,777,000	\$ 2,881,246
Transfers out	(1,867,000)	(92,000)	-	-	-	(1,959,000)
Total Other Financing Sources and Uses	(1,590,998)	(92,000)	828,244	-	1,777,000	922,246
Net Change in Fund Balances	2,401,634	685,013	(749,698)	(499,478)	(3,055,520)	(1,218,049)
Fund Balances, January 1	14,893,534	2,564,557	30,953,947	16,290,078	12,836,166	77,538,282
Fund Balances, December 31	<u>\$ 17,295,168</u>	<u>\$ 3,249,570</u>	<u>\$ 30,204,249</u>	<u>\$ 15,790,600</u>	<u>\$ 9,780,646</u>	<u>\$ 76,320,233</u>

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2017

Net change in fund balances – total governmental funds	\$ (1,218,049)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities and changes in net position, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	30,415,836
Capital contributions to the Water and Sewer Fund are recognized as transfers out on the government-wide statement of activities	(4,917,805)
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net position, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds.	(15,314,575)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to decrease net position.	(152,936)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of debt consumes current financial resources of governmental funds. This transaction does not have any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.	12,320,000
Some property taxes will not be collected for several months after the City's fiscal year end and they are not considered "available" revenues in the governmental funds.	(175,015)
Some expenses, <i>i.e.</i> , the change in compensated absences liability, interest, net pension and OPEB liabilities, reported in the statement of activities and changes in net position do not require the use of current financial resources, and, therefore, are not reported as expenditures in the governmental funds.	(3,497,208)
Internal service funds are used by management to charge the costs of certain activities, such as insurance and fuel, to individual funds. The net loss of the internal service funds is reported with governmental activities	<u>1,221,307</u>
Change in net position of governmental activities	<u><u>\$ 18,681,555</u></u>

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City of Fort Smith, Arkansas
Statement of Fund Net Position –
Proprietary Funds
December 31, 2017

	Enterprise Funds			Internal Service
	Water and Sewer	Sanitation	Total	Funds
Current Assets				
Cash	\$ 391,152	\$ 1,432,379	\$ 1,823,531	\$ 964,694
Investments	28,895,614	21,647,003	50,542,617	4,640,469
Receivables				
Accounts, net of uncollectibles of \$197,408; \$32,457 and \$-0-	6,321,357	1,298,568	7,619,925	41,779
Accrued interest	1,905	3,817	5,722	909
Restricted				
Cash	217,258	-	217,258	-
Investments	19,036,067	-	19,036,067	-
Accounts receivable, net of uncollectibles of \$588,905	-	219,707	219,707	-
Interest receivable	4,051	-	4,051	-
Inventories	1,071,111	132,721	1,203,832	36,525
Prepaid items	-	11,805	11,805	124,550
Total Current Assets	55,938,515	24,746,000	80,684,515	5,808,926
Noncurrent Assets				
Restricted				
Prepaid items and deposits	174,212	-	174,212	-
Capital assets				
Land	13,887,620	373,772	14,261,392	-
Buildings	1,715,650	5,138,136	6,853,786	-
Improvements other than buildings	-	23,253,316	23,253,316	-
Leasehold improvements	-	709,952	709,952	-
Machinery and equipment	16,745,153	17,090,622	33,835,775	-
Water system	407,683,157	-	407,683,157	-
Sewer system	301,311,737	-	301,311,737	-
Construction in progress	22,917,430	70,553	22,987,983	-
Less accumulated depreciation	(225,766,941)	(34,967,147)	(260,734,088)	-
Total Noncurrent Assets	538,668,018	11,669,204	550,337,222	-
Total Assets	594,606,533	36,415,204	631,021,737	5,808,926
Deferred outflows of resources				
Deferred amount on refunding	2,856,546	-	2,856,546	-
Total deferred outflows of resources	2,856,546	-	2,856,546	-

City of Fort Smith, Arkansas
Statement of Fund Net Position –
Proprietary Funds (Continued)
December 31, 2017

	Enterprise Funds			Internal Service
	Water and Sewer	Sanitation	Total	Funds
Current liabilities				
Accounts payable and accrued liabilities	\$ 3,739,749	\$ 643,030	\$ 4,382,779	\$ 58,391
Retainage payable	404,619	-	404,619	-
Accrued vacation and sick leave	49,444	12,344	61,788	-
Accrued interest	3,848,106	-	3,848,106	-
Claims and judgments	-	-	-	1,650,415
Due to other funds	-	-	-	136
Revenue bonds payable	7,050,000	-	7,050,000	-
Deposits	544,770	-	544,770	-
Other	2,497	-	2,497	-
Total Current Liabilities	15,639,185	655,374	16,294,559	1,708,942
Noncurrent liabilities				
Accrued vacation and sick leave	791,436	197,588	989,024	-
Landfill closure and postclosure care	-	7,930,886	7,930,886	-
Revenue bonds, net	170,096,166	-	170,096,166	-
OPEB liabilities	8,246,948	3,241,018	11,487,966	-
Total Noncurrent Liabilities	179,134,550	11,369,492	190,504,042	-
Total Liabilities	194,773,735	12,024,866	206,798,601	1,708,942
Deferred inflows of resources				
Deferred amount on refunding	124,621	-	124,621	-
Total deferred inflows of resources	124,621	-	124,621	-
Net Position				
Net investment in capital assets	373,895,782	11,669,204	385,564,986	-
Restricted for bond retirement	22,955,754	-	22,955,754	-
Restricted for asset replacement	500,000	125,471	625,471	-
Unrestricted	5,213,187	12,595,663	17,808,850	4,099,984
Total Net Position	\$ 402,564,723	\$ 24,390,338	426,955,061	\$ 4,099,984
Reconciliation to government - wide statement of net position:				
Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds			886,628	
Net position of business type activities			\$ 427,841,689	

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas
Statement of Revenues, Expenses and Changes in
Fund Net Position – Proprietary Funds
For the Year Ended December 31, 2017

	Enterprise Funds			Internal Service
	Water and Sewer	Sanitation	Total	Funds
Operating Revenues				
Water service	\$ 24,162,918	\$ -	\$ 24,162,918	\$ -
Sewer service	29,459,409	-	29,459,409	-
Other charges for services	1,163,931	14,634,242	15,798,173	11,781,931
Other	115,940	123,303	239,243	-
Total Operating Revenues	54,902,198	14,757,545	69,659,743	11,781,931
Operating Expenses				
Personnel services	15,072,093	5,552,870	20,624,963	2,352
Contractual services	6,571,099	3,659,188	10,230,287	549,968
Materials and supplies	3,472,882	2,543,459	6,016,341	597,543
Heat, light, and power	2,045,780	112,749	2,158,529	-
Depreciation	14,291,845	2,646,990	16,938,835	-
Insurance claims and expenses	-	-	-	9,767,829
Total Operating Expenses	41,453,699	14,515,256	55,968,955	10,917,692
Operating Income	13,448,499	242,289	13,690,788	864,239
Nonoperating Revenues (Expenses)				
Interest revenue	312,332	89,210	401,542	20,882
Interest expense and fiscal charges	(9,542,028)	-	(9,542,028)	-
Loss on disposal of property	(5,227,731)	(447,817)	(5,675,548)	-
Other nonoperating revenues (expenses), net	637,123	125,859	762,982	-
Net Nonoperating Revenues (Expenses)	(13,820,304)	(232,748)	(14,053,052)	20,882
Income (Loss) Before Contributions and Transfers	(371,805)	9,541	(362,264)	885,121
Capital contributions	4,917,805	-	4,917,805	-
Transfers in	-	90,000	90,000	-
Transfers out	(921,246)	(91,000)	(1,012,246)	-
Change in Net Position	3,624,754	8,541	3,633,295	885,121
Net position, beginning of year	398,939,969	33,529,660		3,214,863
Prior period adjustment (Note 14)	-	(9,147,863)		-
Net position, beginning of year, as restated	398,939,969	24,381,797		3,214,863
Net position, ending	\$ 402,564,723	\$ 24,390,338		\$ 4,099,984

Reconciliation to government - wide statement of activities:

Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds

138,186

Change in net position of business type activities for government - wide statement of activities

\$ 3,771,481

See accompanying notes to basic financial statements.

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City of Fort Smith, Arkansas
Statement of Cash Flows – Proprietary Funds
For the Year Ended December 31, 2017

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
Operating Activities				
Cash received from customers	\$ 54,709,084	\$ 16,629,581	\$ 71,338,665	\$ -
Cash received from service users	-	-	-	1,034,984
Cash received from city and employee contributions	-	-	-	10,773,594
Cash payments for goods and services	(10,400,612)	(6,115,825)	(16,516,437)	(609,037)
Cash paid to employees	(14,487,781)	(5,272,779)	(19,760,560)	-
Cash payments for premiums and other operating expenses	-	-	-	(479,037)
Cash payments for claims paid	-	-	-	(9,801,314)
Cash received from other operating revenues	115,940	123,303	239,243	-
Net cash provided by operating activities	29,936,631	5,364,280	35,300,911	919,190
Noncapital Financing Activities				
Transfers in from other funds	-	90,000	90,000	-
Transfers out to other funds	(921,246)	(91,000)	(1,012,246)	-
Net cash used in noncapital financing activities	(921,246)	(1,000)	(922,246)	-
Capital and Related Financing Activities				
Proceeds from sale of capital assets	-	125,859	125,859	-
Acquisition and construction of capital assets	(20,409,662)	(189,938)	(20,599,600)	-
Principal paid on bonds	(6,275,000)	-	(6,275,000)	-
Interest paid on bonds	(7,374,703)	-	(7,374,703)	-
Net cash used in capital and related financing activities	(34,059,365)	(64,079)	(34,123,444)	-
Investing Activities				
Proceeds from sales and maturities of investment securities	112,414,459	2,462,450	114,876,909	1,615,144
Outlays for purchases of investment securities	(108,938,782)	(7,590,538)	(116,529,320)	(2,725,687)
Interest on investments	310,891	88,181	399,072	20,630
Net cash provided by (used in) investing activities	3,786,568	(5,039,907)	(1,253,339)	(1,089,913)
Net Increase (Decrease) in Cash	(1,257,412)	259,294	(998,118)	(170,723)
Cash, January 1	1,865,822	1,173,085	3,038,907	1,135,417
Cash, December 31	\$ 608,410	\$ 1,432,379	\$ 2,040,789	\$ 964,694

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas
Statement of Cash Flows – Proprietary Funds (Continued)
For the Year Ended December 31, 2017

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
Reconciliation of cash and restricted cash at December 31 to statement of net position				
Cash	\$ 391,152	\$ 1,432,379	\$ 1,823,531	\$ 964,694
Restricted cash	217,258	-	217,258	-
Total	<u>\$ 608,410</u>	<u>\$ 1,432,379</u>	<u>\$ 2,040,789</u>	<u>\$ 964,694</u>
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 13,448,499	\$ 242,289	\$ 13,690,788	\$ 864,239
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	14,291,845	2,646,990	16,938,835	-
Change in assets and liabilities				
Accounts receivable	210,629	25,680	236,309	26,395
Due from other funds	-	-	-	252
Inventory	(73,172)	(23,472)	(96,644)	(16,785)
Prepaid items	(26,531)	53,963	27,432	(93,786)
Accounts payable and accrued liabilities	1,497,799	114,747	1,612,546	(45,299)
Deposits	(4,047)	-	(4,047)	-
Liability for claims and judgments	-	-	-	184,174
OPEB liabilities	591,564	285,272	876,836	-
Other liabilities	45	2,018,811	2,018,856	-
Total adjustments	<u>16,488,132</u>	<u>5,121,991</u>	<u>21,610,123</u>	<u>54,951</u>
Net cash provided by operating activities	<u>\$ 29,936,631</u>	<u>\$ 5,364,280</u>	<u>\$ 35,300,911</u>	<u>\$ 919,190</u>

Noncash investing, capital and financing activities:

Enterprise funds:

The Water and Sewer Fund received contributions of capital assets of \$4,377,664 for 2017.

City of Fort Smith, Arkansas
Statement of Fiduciary Net Position
OPEB Trust Fund
December 31, 2017

Assets

Current Assets

Investments:

Government money market funds	\$ 334,880
Equities - agency bonds	180,947
US government bonds	747,477
Certificates of deposit	<u>225,020</u>
Total Investments	<u>1,488,324</u>
 Total Current Assets	 <u>1,488,324</u>
 Total Assets	 <u>1,488,324</u>

Liabilities

Current Liabilities

Accounts payable	<u>3,751</u>
 Total Current Liabilities	 <u>3,751</u>
 Total Liabilities	 <u>3,751</u>

Net Position

Net position restricted for postemployment benefits other than pensions	<u>1,484,573</u>
 Total Net Position	 <u><u>\$ 1,484,573</u></u>

City of Fort Smith, Arkansas
Statement of Changes in Fiduciary Net Position
OPEB Trust Fund
For the Year Ended December 31, 2017

Additions:

Investment Earnings	
Investment expense	\$ 10,904
Net increase in fair value of investments	<u>6,436</u>
Total additions	17,340

Deductions:

Investment expenses:	
Management fees	<u>11,197</u>
Change in Net Position	6,143

Net Position Restricted for Postemployment

Benefits Other Than Pensions

Beginning of year	<u>1,478,430</u>
End of year	<u><u>\$ 1,484,573</u></u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2017

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The City of Fort Smith, Arkansas (the “City”) is a municipal corporation operating under the authority of Arkansas state statute. The City operates under a city administrator form of government. Seven elected directors and the Mayor set policy. The directors employ the City Administrator. The accounting and reporting policies of the City conform to accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body accepted in the United States for establishing governmental accounting and financial reporting principles.

Adoption of Accounting Principles

GASB Statement No. 74 – Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

Effective January 1, 2017, the City implemented GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement replaces GASB 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace requirements for those plans previously followed in GASB 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, GASB 43 and GASB 50, *Pension Disclosures*. The Statement is intended to provide additional information to enhance decision-making, support accountability and create additional transparency in the accounting and financial reporting for these plans.

The adoption of GASB Statement No. 74 had no impact on the City’s beginning net position of its statement of fiduciary net position or on the change in net position for the year ended December 31, 2017 of its statement of changes in fiduciary net position. Note disclosures and Required Supplementary Information (RSI) were incorporated to comply with GASB Statement No. 74.

GASB Statement No. 82 – Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73

Effective January 1, 2017, the City implemented GASB Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68 and No. 73*. This statement addresses issues regarding the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. GASB Statement No. 82 had no impact on the City’s financial statements. Note disclosures and RSI were incorporated to comply with Statement No. 82.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2017

Reporting Entity

The City is a municipality governed by an elected mayor and a seven-member board of directors (Board). As required by GAAP, these financial statements present the City (Primary Government) and its component units. The component units are legally separate from the City, but are included in the City's reporting entity because of the significance of their operational or financial relationships with the City based upon the criteria of GASB Statement 14, *The Financial Reporting Entity*, as amended by GASB Statement 39, *Determining whether Certain Organizations Are Component Units*, as amended by GASB Statement 61, *The Financial Reporting Entity: Omnibus*. Generally, GASB Statements 14, 39 and 61 require entities for which the City appoints a voting majority of the board and the entity imposes a financial benefit or burden to be included in the City's financial reporting entity. Additionally, those entities that the nature and significance of their relationship with the City is such that exclusion from the City's financial reporting entity would render the City's financial statements incomplete or misleading, should also be included in the City's reporting entity.

Those entities that meet the above established criteria for inclusion, and that meet either of the following criteria (1) provide services entirely or almost entirely for the City, or (2) whose board is substantially the same as the City's board, are required to be included as part of the primary government's financial statements through "blended" presentation. Those entities that meet the above established criteria for inclusion, but do not either (1) provide services entirely or almost entirely for the City, or (2) have the same or substantially the same board as the City, are required to be presented "discretely" or in a separate column as part of the City's reporting entity, but not part of the primary government. Entities for which the City is accountable because it appoints a voting majority of the Board but is not financially accountable, are related organizations and would be disclosed in these notes.

All entities that are not included as "Blended Component Units" or "Discretely Presented Component Units" on the following page are excluded from the City's financial reporting entity.

Blended Component Units

The City has no component units included as Blended Component Units during 2017.

Discretely Presented Component Units

Business-Type

Fort Smith Parking Authority (the Authority) - The Authority's governing board is appointed by the City's Board; the operation and administration of the Authority's property is conducted by City personnel; and the legal liability for the Authority's revenue bond obligation remains with the City. In addition, the City provides a subsidy to fund the Authority's operations; however, the Authority functions almost entirely for the benefit of residents and other customers. The Authority is a special purpose government engaged solely in business-type activities and is discretely presented in the City's basic financial statements. Separate financial statements are not prepared for the Authority. See *Note 13* on pages 127-128 of these notes for condensed financial statements.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2017

Airport Commission - The Airport Commission manages the Fort Smith Regional Airport and consists of seven members as appointed by the Mayor and confirmed by the Board. Debt is issued in the name of the City and the tax rate on aviation fuel must be approved by the Board. The Airport Commission is a special purpose government engaged solely in business-type activities and is discretely presented in the City's basic financial statements. Financial statements of the Airport Commission can be obtained from the Airport's administrative office located at 6700 McKennon Boulevard, Suite 200, Fort Smith, Arkansas 72903, or from the City Clerk's office. See *Note 13* on pages 127-128 of these notes for condensed financial statements.

Governmental

Advertising and Promotion Commission (the Commission) - The Commission was established during 1989 to promote the City and increase tourism. The Commission is governed by seven members appointed by the Board. The Mayor and one board member serve as two of the seven members of the Commission. The City levies taxes for the Commission's revenue, performs administrative services for collection of taxes, and provides financial services to the Commission. However, the Commission functions for the benefit of the citizens and visitors to the City. The Commission is a special purpose government engaged in governmental activities and is discretely presented in the City's basic financial statements. Separate financial statements are not prepared for the Commission. See *Note 13* on pages 127-128 of these notes for condensed financial statements.

Public Library - The board of trustees for the Fort Smith Public Library manages the Public Library and consists of seven members appointed by the Mayor and confirmed by the Board. Debt is issued in the name of the City and the City levies the Public Library's ad valorem tax annually. The Public Library is a special purpose government engaged in governmental activities and is discretely presented in the City's basic financial statements. Financial statements of the Public Library can be obtained from the Library's administrative office located at 3201 Rogers Avenue, Fort Smith, Arkansas, 72903, or from the City Clerk's office. See *Note 13* on pages 127-128 of these notes for condensed financial statements.

Related Organizations

The City's Mayor and Board are also responsible for appointing members of the boards of other organizations, but the City's accountability, for these organizations, does not extend beyond making the appointments. The Mayor and Board appoint the members of the Fort Smith Housing Authority and the Solid Waste Management District; however, the City cannot impose its will upon the Housing Authority or the Solid Waste Management District as stated in GASB Statements 14 and 39; therefore, the financial operations of these related organizations have not been included in the City's basic financial statements.

Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements as follows:

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2017

Government-Wide Financial Statements

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government and its component units. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Interfund services provided and used are not eliminated in the process of consolidation. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity is offset by program revenues. Direct expenses are those that are clearly associated with a specific function or identifiable activity. Expenses that cannot be specifically identified to a particular function are charged to functions based on time spent for that function and are included in the functional categories. Program revenues include (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or identifiable activity and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program or identifiable activity. All other revenues are reported as general revenues.

Fund Financial Statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category, governmental, proprietary, and fiduciary, are presented. Proprietary funds include both enterprise and internal service funds. The emphasis of fund financial statements is on major governmental and major enterprise funds, each displayed in a separate column. All other governmental and enterprise funds are aggregated and reported as nonmajor funds. Internal service funds are also aggregated and reported in a single column.

The City reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Street Maintenance Fund* is a special revenue fund that accounts for state gas turnback revenues and property taxes from the Sebastian County road tax allocation restricted for street and traffic control operations. Minor maintenance, repair, and construction of streets and traffic control signals as well as street lighting are included in this fund.

The *Sales Tax Fund* is a special revenue fund that accounts for resources from the City's one percent (1%) local sales and use tax dedicated to the major street, bridge, and associated drainage projects.

The *Sales and Use Tax Bond Fund* is a debt service fund that accounts for resources to repay general government related debt.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2017

The City reports the following major enterprise funds:

The *Water and Sewer Fund* is an enterprise fund that accounts for the activities of the water and wastewater operations. The City operates water treatment plants and distribution lines and wastewater treatment plants, pumping stations and collection systems.

The *Sanitation Fund* is an enterprise fund that accounts for the activities of providing solid waste collection and disposal. The City's landfill activities are included in this fund.

The City reports the following fiduciary fund type:

The OPEB Fund is a pension trust fund that accounts for contributions to an irrevocable trust established to provide for future funding of retirees' medical plan benefits.

Additionally, the City reports the following fund types:

Special Revenue Funds- The special revenue funds, which include federal and state grants, are used to account for the proceeds of specific revenue sources, other than major capital projects, that are legally restricted to expenditures for specified purposes. The City's nonmajor special revenue funds are Community Development Block Grant (CDBG) Funds, Tilles Park Fund, Home Investment Partnership Act Fund, Special Grants Fund, LOPFI Contribution Fund, Economic Development Fund, and Convention Center Fund.

Capital Projects Fund - The Sales and Use Tax Construction Fund is a capital projects fund that accounts for the proceeds of the Sales and Use Tax Refunding and Construction Bonds and the projects funded thereby.

Internal Service Funds- The internal service funds are used to account for centralized services, employee health care, and workers' compensation coverage provided to the City departments on a cost-reimbursement basis.

Measurement Focus and Basis of Accounting

Government-Wide and Proprietary Funds

The government-wide, proprietary fund financial statements and fiduciary fund financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Proprietary fund operating revenues and expenses are distinguished from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations of the fund. All revenues and expenses not meeting this definition are reported as nonoperating items.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2017

Nonexchange transactions, in which the City receives (or gives) value without directly giving (or receiving) equal value in exchange, include taxes, fines and forfeitures, grants, entitlements, and similar items; and contributions. Recognition standards are based on the characteristics and classes of nonexchange transactions. Property taxes are recognized as revenues in the year for which they are levied. Utility franchise fees, other taxes, and fines and forfeitures are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when an enforceable legal claim to the assets arises and the use of resources is required or is first permitted. All of the utility franchise fees remitted to the City are based upon the gross receipts of the franchised utility. Grants, entitlements, and contributions are recognized as revenues, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met. Amounts received before all eligibility requirements have been met are reported as unavailable revenues. Grants and similar aid to other organizations are recognized as expenses as soon as recipients have met all eligibility requirements. Amounts paid before all eligibility requirements have been met are reported as prepaid items.

Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The statement of revenues, expenditures and changes in fund balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources. General capital asset acquisitions are reported as expenditures and proceeds of general long-term debt are reported as other financing sources. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. The City considers revenues reported in the governmental funds to be available if they are collectible within sixty (60) days after year-end with the exception of grant revenues that are considered available if collected within one year. Principal revenue sources considered susceptible to accrual include ad valorem taxes, sales taxes, utility franchise fees, grant revenues, and interest. Other revenues, such as fines and forfeitures and service charges, are considered to be measurable and available only when cash is received by the City. Expenditures generally are recorded when the related liability is incurred under the accrual basis of accounting, except for expenditures related to principal and interest on long-term debt, claims and judgments, and compensated absences which are recorded only when payment is due.

Cash and Investments

In order to facilitate cash management, the operating cash of certain funds is pooled into common bank accounts for the purpose of increasing income through combined investment activities. Investments are carried at fair value. Interest earned on investments is recorded in the funds in which the investments are recorded.

Inventories

Inventories, consisting primarily of gasoline and waterline materials, are valued on the average cost basis.

General government fund inventories are accounted for on the purchase method.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2017

Capital Assets

Capital assets, which include infrastructure assets constructed since 1980, are reported in the government-wide financial statements and the fund financial statements for proprietary funds.

Capital assets are recorded at cost including interest during the construction period for business-type activities. Contributed property is recorded at acquisition value at the date of contribution. Depreciation is recorded on each class of depreciable property utilizing the straight-line method over the estimated useful lives of the assets, or on the units-of-production method based on filled capacity utilized for the City's landfill.

The ranges of estimated useful lives, excluding improvements other than buildings for the Sanitation Fund, are as follows:

Capital Assets	Useful Life (Years)
Governmental activities:	
Buildings	10 to 50
Improvements other than buildings	5 to 50
Infrastructure	
Streets	40
Bridges	30
Drainage	20
Machinery and equipment	5 to 20
Business-type activities:	
Enterprise funds:	
Water and sewer system:	
Buildings	10 to 50
Water system	10 to 50
Sewer system	10 to 50
Machinery and equipment	3 to 10
Sanitation:	
Buildings	35
Leasehold improvements	10 to 30
Machinery and equipment	3 to 10
Discretely presented component units:	
Public Library	
Fixtures and equipment	5 to 10
Transportation equipment	5
Parking Authority:	
Buildings	30
Machinery and equipment	3 to 10
Airport Commission:	
Buildings and improvements	10 to 30
Improvements other than buildings	5 to 20
Machinery and equipment	3 to 15
Furniture and fixtures	3 to 10
Ramps, runways, taxiways and improvements	3 to 50

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2017

Renewals and betterments of property and equipment are capitalized, whereas normal repairs and maintenance are charged to expense as incurred.

Interest is capitalized on enterprise fund capital assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. There was no capitalized interest in 2017.

The City's capitalization policy states that capital assets are defined as assets with an initial value or cost greater than or equal to \$5,000 and an estimated useful life of greater than one year. Exceptions are for infrastructure assets that are defined as having a constructed cost greater than or equal to \$250,000.

Property Tax Revenue

Taxes are levied on November 1 and are due and payable at that time. Property taxes attach an enforceable lien on property the first following Monday in February (the lien date). All unpaid taxes levied November 1 become delinquent October 16 of the following year.

Sebastian County is the collecting agent for the levy and remits the collections to the City, net of a collection fee.

The City is permitted by Arkansas State Law to levy taxes up to \$0.50 per \$100 of assessed valuation on real and personal property for general governmental services, \$0.50 per \$100 of assessed valuation on real and personal property for the payment of principal and interest on long-term debt, \$0.10 per \$100 of assessed valuation on real and personal property for the police pension funds and \$0.10 per \$100 of assessed valuation on real and personal property for the fire pension funds. The combined tax rate levied by the City in 2015 to finance the above operations was \$0.70 per \$100 of assessed valuation on real and personal property, leaving a tax margin of \$0.50 per \$100 of assessed valuation on real and personal property. Approximately \$7.3 million of additional taxes could be raised per year based on the current year's assessed value of \$1,067,629,242 for real property and \$374,356,480 for personal property before the limit is reached.

Compensated Absences

The City allows nonuniformed employees to accumulate unused vacation of up to 160 hours, police to accumulate unused vacation of up to 160 hours, and firefighters to accumulate unused vacation of up to 240 hours for one year. Upon termination, any accumulated unused vacation time will be paid to the employees. Generally, City employees are allowed to accumulate unused sick leave up to a maximum of 120 days. Any accumulated unused sick leave over 45 days for nonuniformed employees hired prior to February 4, 1992, and any accumulated unused sick leave over 90 days for nonuniformed employees hired February 4, 1992, and thereafter is paid upon termination. At the end of term of service, police officers will be paid for any accumulated unused sick leave upon retirement to a maximum amount equal to three month's salary for police officers at the rank held upon retirement. At the end of term of service, firefighters shall be paid for any accumulated unused sick leave upon retirement to a maximum amount of three month's salary in the rank of Assistant Chief and above, and to a maximum amount of 728 hours for firefighters in the rank of Captain and below.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2017

The City records a liability for compensated absences as the employee earns benefits attributable to services already rendered that are not contingent on a specific event that is outside the control of the City. All compensated absences are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured such as a result of employee resignations and retirements.

Risk Management

The City maintains a medical self-insurance plan funded by the City and administered by a third party. The plan provides certain healthcare benefits to active and retired City employees. Substantially all regular, full-time City employees are eligible for these benefits. The City's costs of providing these benefits, including premiums, totaled \$9,267,733 in 2017, and are included in operating expenses in the Employee Insurance Fund. The City contributes fully for each employee and shares in the contribution for any dependents. Retired employees may continue coverage under the City's policy, but must bear the entire cost of these contributions. See *Note 8* on pages 116-122.

The City also makes contributions to fund a self-insured workers' compensation program. The City contributed \$1,052,416 in 2017 to fund this program. There have been no significant reductions in insurance coverage from the prior year and there were no settlements that exceeded insurance coverage in the past three fiscal years.

Sales Taxes

In November 1985, the City began assessing a 1% sales and use tax on retail sales in the City. The tax is collected by the state and remitted to the City, net of a collection fee. Taxes for this purpose totaled \$21,204,143 for fiscal year 2017, and are included in the Sales Tax Fund's sales tax revenues in the accompanying financial statements. Sales tax revenues are restricted for repair, maintenance, and improvement of City streets, bridges, and associated drainage. The City refers the tax to the voters every ten years for reapproval. The tax is currently extended through 2025.

In August 1994, Sebastian County began assessing a 1% sales and use tax on retail sales in the county. Each city within Sebastian County receives a portion of the tax based upon population of the city. Currently, the City receives approximately 78% of the county tax. The tax is collected by the state and remitted to the City, net of a collection fee. Taxes totaled \$16,691,854 for fiscal year 2017. These taxes are included in the General Fund's sales tax revenues. The County refers the tax to the voters every ten years for reapproval. The tax is currently in place through August 2024.

In March 2012, the citizens approved a referendum to continue the 1% sales and use tax on retail sales in the city to refund the Sales and Use Tax Construction Bonds, Series 2006, 2008 and 2009, to fund a new aquatics center, construct a new fire station, purchase and replace fire apparatus, improve existing fire stations, water improvements and wastewater improvements. The 1% sales tax revenue is split at $\frac{3}{4}\%$ for the repayment of the Sales and Use Tax Refunding and Construction Bonds, Series 2012 and 2014, and $\frac{1}{4}\%$ for fire and parks departments operating and capital asset costs. These taxes are collected by the state and remitted to the City net of a collection fee. The taxes for this purpose totaled \$21,204,143 for fiscal year 2017, of which \$5,301,036 is included in the General Fund's sales tax revenue and \$15,903,107 is included in the Sales and Use Tax Bond Fund's sales tax revenue.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2017

Statement of Cash Flows

For purpose of the statement of cash flows, the proprietary funds consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents, which are classified as cash and restricted cash in the accompanying statement of fund net position.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in governmental activities, business-type activities, and component units. These amounts are also reported as liabilities in the fund financial statements for proprietary funds. In governmental funds, long-term liabilities are only recorded to the extent that they are due and payable. Debt premiums, discounts and deferred losses on refunding are generally deferred and amortized over the shorter of refunded debt or refunded debt's life using the straight-line method that approximates the effective interest method. Long-term debt is reported net of the applicable debt premium or discount and deferred losses on refundings

In the fund financial statements, governmental fund types recognize debt discounts and premiums during the current period. The face amount of the debt issued and discounts given are reported separately as other financing sources. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures.

Restricted Assets

Assets are reported as restricted when constraints placed on them are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or are imposed by law through constitutional provisions or enabling legislation.

When both restricted and unrestricted resources are available for use, generally it is the City's policy to use restricted resources first. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are used first.

Certain proceeds of the City's general government sales and use tax bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The balance of the restricted asset accounts in the general government activities are as follows:

Cash	\$ 225,621
Investments	14,762,317
Interest receivable	41,122
Sales taxes receivable	<u>1,329,473</u>
Total restricted assets - general government	<u>\$ 16,358,533</u>

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2017

Certain proceeds of the City's enterprise funds revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

The balances of the restricted assets accounts in the enterprise funds are as follows:

Current Assets:

Cash - water and sewer meter deposit account	\$ 12,402
Cash - water and sewer bond construction account	204,856
Investments - water and sewer depreciation account	1,399,763
Investments - water and sewer meter deposit account	431,295
Investments - water and sewer bond account	7,410,784
Investments - water and sewer bond construction account	9,794,225
Accounts receivable - solid waste cleanup program account	<u>219,707</u>
Total current assets - restricted	<u>19,473,032</u>

Noncurrent assets:

Prepaid items and deposits - water and sewer operating account	48,825
Prepaid items and deposits - water and sewer bond construction account	<u>125,387</u>
Total noncurrent assets	<u>174,212</u>
 Total restricted assets - enterprise funds	 <u><u>\$ 19,647,244</u></u>

Unearned Revenue

Unearned revenue consists mainly of grant receipts and convention center rentals.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from these estimates.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2017

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Fire Relief and Pension Plan, the Police Relief and Pension Plan, the Local Police and Fire Retirement System and the Arkansas Public Employee's Retirement System (together, the Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Fund Balances – Governmental Funds

The fund balances for the City's governmental funds are displayed in five components:

Nonspendable – Nonspendable fund balances are not in a spendable form or are required to remain intact.

Restricted – Restricted fund balances may be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

Committed – Committed fund balances may be used only for the specific purposes determined by ordinance of the Board of Directors (BOD). Commitments may be changed by issuance of an ordinance by the BOD.

Assigned – Assigned fund balances are intended to be used by the City for specific purposes as determined by management. In governmental funds other than the General Fund, assigned fund balances represent the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund. The Board of Directors (BOD) has by resolution authorized the City Administrator to assign fund balance. The BOD may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget.

Unassigned – Unassigned fund balance is the residual classification for the General Fund and includes all amounts not contained in other classifications. The General Fund is the only fund that can report a positive unassigned fund balance. However, in other governmental funds, if the amounts spent is more than the resources available for a specific purpose, then it may need to report a negative amount in unassigned fund balance.

The City considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. The City applies committed amounts first, followed by assigned amounts, and then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2017

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure/reduction of liability) until then. The City has three items that qualify for reporting in this category. The first item is a deferred charge on refunding reported in the government-wide statement of net position and the proprietary funds statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its acquisition price. This amount is deferred and amortized to interest expense over the shorter of the life of the refunded or refunding debt. Both of the remaining two items are related to pensions, with one being the amount of contributions made to the pension plans after the measurement date, and the other the difference in investment experience between actual earnings and projected earnings on pension plan investments. Deferred outflows related to contributions made after the measurement date will be used in the next year to reduce net pension liability. The remaining amounts will be amortized to pension expense over future periods as shown within *Note 7*.

In addition to liabilities, the statement of net position and balance sheet – governmental funds will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has three items that qualify as deferred inflows of resources as of December 31, 2017. The items reported in the statements are unavailable revenues in the governmental funds balance sheet, deferred inflows-pension in the government-wide statement of net position, and deferred amounts on refunding in the government-wide statement of net position and the proprietary funds statement of net position. Unavailable revenue arises under the modified accrual basis of accounting and qualifies for reporting in this category. Accordingly, this item is only reported in the governmental funds balance sheet. Governmental funds report unavailable revenue from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Deferred inflows-pension consists of the difference between the expected and actual experience related to the pension plans as well as the net difference in investment experience between actual earnings and projected earnings on pension plan investments. Deferred inflows- pension are amortized over future periods as shown within *Note 7*.

Subsequent Events

Subsequent events have been evaluated through June 27, 2018, which is the date the financial statements were available to be issued.

Note 2: Cash and Investments

The City maintains a cash and investment pool that is available for use by all City funds. In addition, investments are separately held by some of the City's funds.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2017

The City follows GASB Statement 3, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended by GASB Statement 40, *Deposit and Investment Risk Disclosure*. The investments and deposits of the primary government are stated at quoted fair values. As a result, a net unrealized loss of \$53,526 is recorded as a decrease in fair value of investments for the primary government in 2017 related to the City's governmental funds.

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The City's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Arkansas. No legal opinion has been obtained regarding the enforceability of any of the collateral agreements.

At December 31, 2017, approximately \$2,000,000 of the City's bank balances were uninsured and uncollateralized. These balances were exposed to custodial credit risk. Independent third parties held securities in the City's name as collateral at December 31, 2017. The bank balances and carrying amount of the City's deposits held as of December 31, 2017 were as follows:

Pooled and Nonpooled Funds

Description	Bank Balance	Carrying Amount
Demand deposits	\$ 111,579,582	\$ 113,130,049
Certificates of deposit	<u>8,017,567</u>	<u>8,017,567</u>
	<u><u>\$ 119,597,149</u></u>	<u><u>\$ 121,147,616</u></u>

Component Units

At year-end, the carrying amount and the bank balance of the Advertising and Promotion Commission deposits was \$20,364. At December 31, 2017, none of the balances were exposed to custodial credit risk.

At year-end, the carrying amount of the Public Library's deposits was \$693,467 and the bank balance was \$731,699. At December 31, 2017, \$324,085 of the balances were exposed to custodial credit risk.

At year-end, the carrying amount and the bank balance of the Parking Authority's deposits was \$7,816. At December 31, 2017, none of the balances were exposed to custodial credit risk.

At year-end, the carrying amount of the Airport Commission's deposits was \$2,768,924 and the bank balance was \$4,683,901. At December 31, 2017, none of the balances were exposed to custodial credit risk.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2017

Investments

State statutes and City ordinances authorize the City to invest funds in direct obligations of the U.S. Government; obligations on which the principal and interest are fully guaranteed or are fully secured, insured or covered by commitments or agreements to purchase by the U.S. Government; obligations of agencies and instrumentalities created by an act of the United States Congress and authorized thereby to issue securities or evidence of indebtedness, regardless of guarantee of repayment by the U.S. Government; obligations of political subdivisions of the United States; certain obligations issued by the State Board of Education; short-term warrants of political subdivisions of the State of Arkansas and municipalities; the sale of federal funds with a maturity of not more than one business day; demand, savings or time deposits fully insured by a federal deposit insurance agency; repurchase agreements that are fully insured by obligations of the U. S. government, any U. S. state or any political subdivision thereof; securities of, or other interest in, any open-end type investment company or investment trust registered under the Investment Company Act of 1940, and which is considered a money market fund, provided that the portfolio is limited principally to U. S. Government obligations and the investment company or trust takes delivery of collateral either directly or through an authorized custodian; and bank certificates of deposit.

Arkansas statutes also authorize the City to invest no more than 20 percent of its capital base in corporate debt obligations; revenue bond issues of any U. S. state, municipality, or political subdivision; industrial development bonds for corporate obligors issued through any U. S. state or political subdivision; securities or interest in an open-end or closed-end management type investment company or trust registered under the Investment Company Act of 1940 with certain limitations; securities or interests issued, assumed, or guaranteed by certain international banks; and uninsured demand, savings or time deposits or accounts or any depository institution chartered by the United States, any U.S. state, or the District of Columbia.

The City pension funds are authorized to invest in obligations of the U.S. Treasury, U.S. agencies and instrumentalities, commercial paper, corporate stocks, bonds, and mutual funds.

The City's investments, including accrued interest, held as of December 31, 2017, were as follows:

Pooled and Nonpooled Funds

Description	Fair Value	Investment Maturities Less than 1 Year	Investment Maturities 1-5 Years
U.S. Treasury Bills	\$ 14,562,111	\$ 14,562,111	\$ -
U.S. Treasury Notes	15,041,690	-	15,041,690
	<u>\$ 29,603,801</u>	<u>\$ 14,562,111</u>	<u>\$ 15,041,690</u>

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2017

In compliance with GASB 72, the City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City has the following recurring fair value measurements as of December 31, 2017:

- U.S. government obligations of \$29,603,801 are valued using the option-adjusted discounted cash flow model (Level 2 inputs).
- Money market funds of \$335,973, equities of \$180,947 and fixed income securities of \$971,404 are valued using quoted market prices (Level 1 inputs).

Component Units

At year-end, the Advertising & Promotion Commission held \$422,188 in U.S. Treasury Bills. The Advertising & Promotion Commission reports investments at fair value and the maturity dates of the bills are less than one year. The U.S. government obligations of \$422,188 are valued using the option-adjusted discount cash flow model (Level 2 inputs).

At year-end, the Public Library held \$301,035 in money market funds. The Public Library reports investments at fair value.

At year-end, the Parking Authority fund held \$496,805 in U.S. Treasury Bills. The Parking Authority reports investments at fair value and the maturity dates of the bills are less than one year. The U.S. government obligations of \$496,805 are valued using the option-adjusted discount cash flow model (Level 2 inputs).

At year-end, the Airport Commission held \$76,761 in money market mutual funds. The Airport Commission reports investments at fair value.

Interest Rate Risk. The City's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. The City's investments at December 31, 2017, are securities issued and guaranteed by the U.S. Government.

Custodial Credit Risks. Custodial credit risk is the risk that in the event of the failure of the counterparty the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. While the City's investment policy does not directly address custodial credit risk, all investments held by the City or by an agent of the City are in the City's name.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
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The following schedules reconcile the carrying amounts of deposits and investments to the government-wide statement of net position:

Primary Government:

Carrying value of deposits -	
Pooled and nonpooled funds	\$ 121,147,616
Deposits classified as investments	<u>(115,145,269)</u>
	<u><u>\$ 6,002,347</u></u>
Cash as reported on the government-wide statement of net position	\$ 5,559,468
Restricted cash as reported on the government-wide statement of net position	<u>442,879</u>
	<u><u>\$ 6,002,347</u></u>
Carrying value of investments -	
Pooled and nonpooled funds	\$ 29,603,801
Deposits classified as investments	<u>115,145,269</u>
	<u><u>\$ 144,749,070</u></u>
As reported on the government-wide statement of net position:	
Investments	\$ 110,890,888
Interest receivable	14,625
Restricted investments	33,798,384
Restricted interest receivable	<u>45,173</u>
	<u><u>\$ 144,749,070</u></u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
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Component Units:

Governmental type-

Carrying value of deposits -

Advertising and Promotion

Commission	\$ 20,364
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Public Library	693,467
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Carrying value of investments -

Advertising and Promotion

Commission	422,259
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Public Library	301,035
----------------	---------

	\$ 1,437,125
--	--------------

As reported on the government-wide
statement of net position:

Cash	\$ 713,831
------	------------

Investments	723,223
-------------	---------

Interest receivable	71
---------------------	----

	\$ 1,437,125
--	--------------

Business type-

Carrying value of deposits -

Parking Authority	\$ 7,816
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Airport Commission	4,586,550
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Carrying value of investments -

Parking Authority	496,805
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Airport Commission	76,761
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	\$ 5,167,932
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As reported on the government-wide
statement of net position:

Cash	\$ 1,846,668
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Investments	2,391,107
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Interest receivable	85
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Restricted cash	424,414
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Restricted investments	505,658
------------------------	---------

	\$ 5,167,932
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City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2017

Note 3: Capital Assets

Capital assets activity for the year ended December 31, 2017 was as follows:

Primary Government:

	December 31, 2016	Additions	Deletions/ Transfers	December 31, 2017
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 27,175,288	\$ 7,058	\$ (31,500)	\$ 27,150,846
Construction in progress	28,301,225	24,008,035	(18,367,807)	33,941,453
Total capital assets not being depreciated	<u>55,476,513</u>	<u>24,015,093</u>	<u>(18,399,307)</u>	<u>61,092,299</u>
Capital assets being depreciated				
Buildings	86,552,914	22,650	-	86,575,564
Improvements other than buildings	18,566,891	5,022	1,846,369	20,418,282
Infrastructure	379,751,022	-	14,953,237	394,704,259
Machinery and equipment	50,718,349	1,995,407	(3,639,538)	49,074,218
Total depreciable capital assets at historical cost	<u>535,589,176</u>	<u>2,023,079</u>	<u>13,160,068</u>	<u>550,772,323</u>
Less accumulated depreciation for				
Buildings	27,167,792	1,860,305	-	29,028,097
Improvements other than buildings	10,125,260	728,708	(22,750)	10,831,218
Infrastructure	121,644,473	9,827,853	-	131,472,326
Machinery and equipment	29,507,881	2,897,709	(3,592,325)	28,813,265
Total accumulated depreciation	<u>188,445,406</u>	<u>15,314,575</u>	<u>(3,615,075)</u>	<u>200,144,906</u>
Capital assets being depreciated, net	<u>347,143,770</u>	<u>(13,291,496)</u>	<u>16,775,143</u>	<u>350,627,417</u>
Governmental activities capital assets, net	<u>\$ 402,620,283</u>	<u>\$ 10,723,597</u>	<u>\$ (1,624,164)</u>	<u>\$ 411,719,716</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2017

Primary Government:

	December 31, 2016 As Restated	Additions	Deletions/ Transfers	December 31, 2017
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 13,461,692	\$ 793,817	\$ 5,883	\$ 14,261,392
Construction in progress	61,925,027	19,430,390	(58,367,434)	22,987,983
Total capital assets not being depreciated	75,386,719	20,224,207	(58,361,551)	37,249,375
Capital assets being depreciated:				
Water system	388,830,260	207,000	18,645,897	407,683,157
Sewer system	268,603,526	345,451	32,362,760	301,311,737
Buildings	5,138,136	88,032	1,627,618	6,853,786
Improvements other than buildings	22,668,205	15,720	569,391	23,253,316
Leasehold improvements	709,952	-	-	709,952
Machinery and equipment	39,731,133	4,636,995	(10,532,353)	33,835,775
Total depreciable capital assets at historical cost	725,681,212	5,293,198	42,673,313	773,647,723
Less accumulated depreciation for:				
Water system	117,585,956	7,058,071	(29,144)	124,614,883
Sewer system	86,675,552	5,846,096	29,144	92,550,792
Buildings	1,284,896	221,877	-	1,506,773
Improvements other than buildings	19,587,620	1,320,008	-	20,907,628
Leasehold improvements	709,952	-	-	709,952
Machinery and equipment	27,963,967	2,492,783	(10,012,690)	20,444,060
Total accumulated depreciati	253,807,943	16,938,835	(10,012,690)	260,734,088
Capital assets being depreciated, net	471,873,269	(11,645,637)	52,686,003	512,913,635
Business-type activities capital assets, net	\$ 547,259,988	\$ 8,578,570	\$ (5,675,548)	\$ 550,163,010

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2017

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:		
General government -		
Administration	\$	53,893
Legal		544
Finance		53,144
Public safety -		
Police		1,101,657
Fire		1,101,613
Public works -		
Streets		9,827,855
Traffic Control		517,756
Community services -		
Health and social services		8,742
Parks and recreation		1,588,971
Convention center		677,846
Transit		369,462
Housing and rehabilitation		13,092
Total governmental activities depreciation expense		<u>15,314,575</u>
Business type activities:		
Water and Sewer		14,291,845
Sanitation		2,646,990
Total business-type activities depreciation expense		<u>16,938,835</u>
Total depreciation expense	\$	<u><u>32,253,410</u></u>

Reconciliation of capital asset additions to the capital outlay in the Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds:

Capital asset activity (on page 70):		
Additions for capital assets not being depreciated	\$	24,015,093
Additions for capital assets being depreciated		<u>2,023,079</u>
	\$	<u><u>26,038,172</u></u>
Capital outlay reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	\$	30,415,836
Less: capital contributions to the water and sewer fund		<u>(4,377,664)</u>
	\$	<u><u>26,038,172</u></u>

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

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A non-cash contribution of \$540,141 was sent from governmental activities to the water and sewer fund. Therefore, capital contributions to the water and sewer fund of \$4,377,664 per the above table will not agree to capital contributions per the Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds of \$4,917,805

Capital asset activity for the year ended December 31, 2017, for the major enterprise funds was as follows:

Primary Government:

	December 31, 2016	Additions/ Transfers	Deletions/ Transfers	December 31, 2017
Water and Sewer Fund:				
Capital assets not being depreciated:				
Land	\$ 13,087,920	\$ 793,817	\$ 5,883	\$ 13,887,620
Construction in progress	61,355,638	19,359,837	(57,798,045)	22,917,430
Total capital assets not being depreciated:	74,443,558	20,153,654	(57,792,162)	36,805,050
Capital assets being depreciated:				
Buildings	-	88,032	1,627,618	1,715,650
Water system	388,830,260	207,000	18,645,897	407,683,157
Sewer system	268,603,526	345,451	32,362,760	301,311,737
Machinery and equipment	14,507,896	4,533,330	(2,296,073)	16,745,153
Total depreciable capital assets at historical cost	671,941,682	5,173,813	50,340,202	727,455,697
Less accumulated depreciation for:				
Buildings	-	66,490	-	66,490
Water system	117,585,956	7,058,071	(29,144)	124,614,883
Sewer system	86,675,552	5,846,096	29,144	92,550,792
Machinery and equipment	9,437,817	1,321,188	(2,224,229)	8,534,776
Total accumulated depreciation	213,699,325	14,291,845	(2,224,229)	225,766,941
Capital assets being depreciated, net	458,242,357	(9,118,032)	52,564,431	501,688,756
Total water and sewer fund capital assets, net	\$ 532,685,915	\$ 11,035,622	\$ (5,227,731)	\$ 538,493,806

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2017

	December 31, 2016 As Restated	Additions	Deletions/ Transfers	December 31, 2017
Sanitation Fund:				
Capital assets not being depreciated:				
Land	\$ 373,772	\$ -	\$ -	\$ 373,772
Construction in progress	569,389	70,553	(569,389)	70,553
Total capital assets not being depreciated:	943,161	70,553	(569,389)	444,325
Capital assets being depreciated:				
Buildings	5,138,136	-	-	5,138,136
Improvements other than buildings	22,668,205	15,720	569,391	23,253,316
Leasehold improvements	709,952	-	-	709,952
Machinery and equipment	25,223,237	103,665	(8,236,280)	17,090,622
Total depreciable capital assets at historical cost	53,739,530	119,385	(7,666,889)	46,192,026
Less accumulated depreciation for:				
Buildings	1,284,896	155,387	-	1,440,283
Improvements other than buildings	19,587,620	1,320,008	-	20,907,628
Leasehold improvements	709,952	-	-	709,952
Machinery and equipment	18,526,150	1,171,595	(7,788,461)	11,909,284
Total accumulated depreciation	40,108,618	2,646,990	(7,788,461)	34,967,147
Capital assets being depreciated, net	13,630,912	(2,527,605)	121,572	11,224,879
Total sanitation fund capital assets, net	\$ 14,574,073	\$ (2,457,052)	\$ (447,817)	\$ 11,669,204

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2017

Component Units-

	<u>December 31,</u> <u>2016</u>	<u>Additions</u>	<u>Deletions/</u> <u>Transfers</u>	<u>December 31,</u> <u>2017</u>
Governmental Activities:				
Public Library				
Capital assets not being depreciated:				
Land	\$ 422,132	\$ -	\$ -	\$ 422,132
Construction in progress	138,642	77,200	(215,842)	-
Rare book collection	5,000	-	-	5,000
Capital assets not being depreciated	<u>565,774</u>	<u>77,200</u>	<u>(215,842)</u>	<u>427,132</u>
Capital assets being depreciated:				
Equipment	1,207,996	215,842	-	1,423,838
Transportation equipment	<u>139,952</u>	<u>-</u>	<u>-</u>	<u>139,952</u>
Total depreciable capital				
assets at historical cost	1,347,948	215,842	-	1,563,790
Less accumulated depreciation	<u>1,131,751</u>	<u>70,188</u>	<u>-</u>	<u>1,201,939</u>
Capital assets being depreciated, net	<u>216,197</u>	<u>145,654</u>	<u>-</u>	<u>361,851</u>
Governmental activities				
capital assets, net				
Public Library	<u>\$ 781,971</u>	<u>\$ 222,854</u>	<u>\$ (215,842)</u>	<u>\$ 788,983</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2017

	<u>December 31,</u> <u>2016</u>	<u>Additions</u>	<u>Deletions/</u> <u>Transfers</u>	<u>December 31,</u> <u>2017</u>
Business-type activities:				
Parking Authority				
Capital assets				
not being depreciated:				
Land	\$ 1,359,160	\$ -	\$ -	\$ 1,359,160
Capital assets being depreciated:				
Improvements other than buildings	2,490,438	-	-	2,490,438
Machinery and equipment	73,525	-	-	73,525
Total depreciable capital				
assets at historical cost	2,563,963	-	-	2,563,963
Less accumulated				
depreciation for:				
Improvements other than buildings	2,439,945	50,493	-	2,490,438
Machinery and equipment	73,525	-	-	73,525
Total accumulated				
depreciation	2,513,470	50,493	-	2,563,963
Capital assets				
being depreciated, net	50,493	(50,493)	-	-
Business-type activities				
capital assets, net				
Parking Authority	\$ 1,409,653	\$ (50,493)	\$ -	\$ 1,359,160

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2017

	<u>December 31, 2016</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>December 31, 2017</u>
Airport Commission:				
Capital assets				
not being depreciated:				
Land	\$ 6,324,706	\$ -	\$ -	\$ 6,324,706
Construction in progress	268,284	1,247,870	(268,284)	1,247,870
Total capital assets not being depreciated	<u>6,504,129</u>	<u>1,247,870</u>	<u>(268,284)</u>	<u>7,572,576</u>
Capital assets being depreciated:				
Buildings	22,029,538	62,010	-	22,091,548
Runways & other airport infrastructure	54,698,728	713,499	-	55,412,227
Equipment, furniture & fixtures, and other	<u>12,239,325</u>	<u>103,210</u>	<u>(46,614)</u>	<u>12,295,921</u>
Total depreciable capital assets at historical cost	<u>87,518,662</u>	<u>878,719</u>	<u>(46,614)</u>	<u>89,799,696</u>
Less accumulated depreciation for:				
Buildings	12,911,503	572,319	-	13,483,822
Runways & other airport infrastructure	36,235,236	1,565,103	-	37,800,339
Equipment, furniture & fixtures, and other	<u>9,483,099</u>	<u>543,138</u>	<u>(46,614)</u>	<u>9,979,623</u>
Total accumulated depreciation	<u>55,936,878</u>	<u>2,680,560</u>	<u>(46,614)</u>	<u>61,263,784</u>
Capital assets being depreciated, net	<u>30,337,753</u>	<u>(1,801,841)</u>	<u>-</u>	<u>28,535,912</u>
Business-type activities capital assets, net				
Airport Commission	<u>\$ 38,085,913</u>	<u>\$ (553,971)</u>	<u>\$ (268,284)</u>	<u>\$ 36,108,488</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2017

Construction-in-progress is composed of the following:

	Primary Appropriation	Expended to December 31, 2017	Committed
Primary government:			
Governmental activities	\$ 58,226,193	\$ 33,941,453	\$ 24,284,740
Business-type activities			
Sanitation capital improvements	70,552	70,553	(1)
Water and sewer capital improvements	35,339,792	22,917,430	12,422,362
Total	<u>\$ 93,636,537</u>	<u>\$ 56,929,436</u>	<u>\$ 36,707,101</u>

The City's governmental construction projects include major street and drainage improvements, a new sports complex, additional trails and greenways, and a new fire training center. Funding is in place for these projects. The water and sewer capital improvement projects include the water and wastewater projects that are being funded by the Sales and Use Tax Refunding and Construction Bonds, Series 2012 and 2014. These assets are being transferred to the Water and Sewer Fund as contributed capital from a general government fund. Funds are available for these projects. The water and sewer capital improvement projects also include the neighborhood waterline improvements, wet weather wastewater improvements, and plant designs that are funded by the 2008 water and sewer system revenue bonds and utility operating revenues. The sanitation project currently includes construction of a new and expanded scale house for operations at the landfill and construction of a new road to the landfill. Funds are in place for both of these projects.

Reconciliation of Capital Assets to Net Investment in Capital Assets on the Statement of Net Position:

	Governmental	Business-Type		
		Water and Sewer	Sanitation	Total
Primary Government:				
Net book value	\$ 411,719,716	\$ 538,488,221	\$ 11,669,204	\$ 550,157,425
Current and noncurrent debt	(89,484,291)	(174,386,664)	-	(174,386,664)
Restricted assets - unspent bond/net proceeds	3,907,485	9,794,225	-	9,794,225
Net investment in capital assets	<u>\$ 326,142,910</u>	<u>\$ 373,895,782</u>	<u>\$ 11,669,204</u>	<u>\$ 385,564,986</u>
Component Units:				
Net book value	\$ 788,983	\$ 37,467,648		
Current and noncurrent debt	-	(2,021,677)		
Net investment in capital assets	<u>\$ 788,983</u>	<u>\$ 35,445,971</u>		

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2017

Note 4: Long-Term Liabilities

Changes in long-term liabilities for the year ended December 31, 2017 were as follows:

Primary Government-

	Balance December 31, 2016	Increases	Decreases	Balance December 31, 2017	Amount Due in One Year
Governmental Activities:					
Bonds Payable -					
Sales tax bonds	\$ 96,720,000	\$ -	\$ 12,320,000	\$ 84,400,000	\$ 7,415,000
Add issuance premium	5,002,935	-	486,577	4,516,358	-
Sales tax bonds payable, net	101,722,935	-	12,806,577	88,916,358	7,415,000
Capital leases payable	88,100	-	88,100	-	-
Compensated Absences	2,371,532	76,610	469,426	1,978,716	117,338
Employee insurance/workers' compensation	1,049,030	559,273	408,188	1,200,115	1,200,115
OPEB liabilities	18,946,334	1,654,989	-	20,601,323	-
Net pension liabilities	63,368,677	-	794,769 *	62,573,908	-
Total other long-term liabilities	85,823,673	2,290,872	1,760,483	86,354,062	1,317,453
Total governmental activities long-term liabilities	<u>\$ 187,546,608</u>	<u>\$ 2,290,872</u>	<u>\$ 14,567,060</u>	<u>\$ 175,270,420</u>	<u>\$ 8,732,453</u>
Business-Type Activities					
Bonds Payable -					
Revenue bonds	\$ 175,180,000	\$ -	\$ 6,275,000	\$ 168,905,000	\$ 7,050,000
Add issuance premium	9,211,017	-	969,851	8,241,166	-
Revenue bonds payable, net	184,391,017	-	7,244,851	177,146,166	7,050,000
Compensated absences	1,074,890	51,990	76,068	1,050,812	61,787
Claims Payable-Employee insurance and worker's compensation	417,211	414,502	381,413	450,300	450,300
OPEB liabilities	10,611,130	876,836	-	11,487,966	-
Closure/postclosure landfill costs	5,912,075	2,018,811	-	7,930,886	-
Total other long-term liabilities	18,015,306	3,362,139	457,481	20,919,964	512,087
Total business-type activities long-term liabilities	<u>\$ 202,406,323</u>	<u>\$ 3,362,139</u>	<u>\$ 7,702,332</u>	<u>\$ 198,066,130</u>	<u>\$ 7,562,087</u>

* Net increase is shown.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2017

Reconciliation of governmental activities to the government-wide statement of net position:

Current Liabilities:	
Current portion of long-term debt	\$ 7,415,000
Noncurrent liabilities:	
Due within one year	1,317,453
Due in more than one year	<u>166,537,967</u>
 Total governmental activities long-term liabilities	 <u><u>\$ 175,270,420</u></u>

Reconciliation of business-type activities to the government-wide statement of net assets:

Current Liabilities:	
Current portion of long-term debt	\$ 7,050,000
Noncurrent liabilities:	
Due within one year	512,087
Due in more than one year	<u>190,504,043</u>
 Total business-type activities long-term liabilities	 <u><u>\$ 198,066,130</u></u>

The claims payable for employee insurance and workers' compensation are related to the internal service fund allocations. The internal service funds serve governmental funds as well as the two enterprise funds, therefore, the claims allocations are applied to governmental and business-type activities as applicable. For governmental activities, the General Fund generally liquidates claims and compensated absences.

The other postemployment benefit (OPEB) liabilities are related to healthcare benefits for retirees. The OPEB liabilities apply to governmental and business-type activities as applicable. For governmental activities, the General Fund generally liquidates OPEB liabilities.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2017

Changes in long-term liabilities for the year ended December 31, 2017 for the major enterprise funds were as follows:

	Balance December 31, 2016	Increases	Decreases	Balance December 31, 2017	Amount Due in One Year
Water and Sewer Fund:					
Bonds Payable -					
Revenue bonds	\$ 175,180,000	\$ -	\$ 6,275,000	\$ 168,905,000	\$ 7,050,000
Add issuance premium	9,211,017	-	969,851	8,241,166	-
Revenue bonds payable, net	184,391,017	-	7,244,851	177,146,166	7,050,000
Compensated absences	869,166	40,749	69,035	840,880	49,444
OPEB liabilities	7,655,384	591,564	-	8,246,948	-
Other long-term liabilities	8,524,550	632,313	69,035	9,087,828	49,444
Total water and sewer fund	<u>\$ 192,915,567</u>	<u>\$ 632,313</u>	<u>\$ 7,313,886</u>	<u>\$ 186,233,994</u>	<u>\$ 7,099,444</u>
Sanitation Fund:					
Compensated absences	\$ 205,724	\$ 11,241	\$ 7,033	\$ 209,932	\$ 12,344
OPEB liabilities	2,955,746	285,272	-	3,241,018	-
Closure/postclosure landfill costs	5,912,075	2,018,811	-	7,930,886	-
Other long-term liabilities	9,073,545	2,315,324	7,033	11,381,836	12,344
Total sanitation fund	<u>\$ 9,073,545</u>	<u>\$ 2,315,324</u>	<u>\$ 7,033</u>	<u>\$ 11,381,836</u>	<u>\$ 12,344</u>

Reconciliation of changes in long-term liabilities for the major enterprise funds to the state fund net position for proprietary funds:

	Water and Sewer Fund	Sanitation Fund
Current Liabilities		
Revenue bonds payable	\$ 7,050,000	\$ -
Accrued vacation and sick leave	49,444	12,344
Noncurrent Liabilities:		
Landfill closure and postclosure care	-	7,930,886
Revenue bonds, net	170,096,166	-
Accrued vacation and sick leave	791,436	197,588
OPEB liabilities	8,246,948	3,241,018
Total long-term liabilities for major enterprise funds	<u>\$ 186,233,994</u>	<u>\$ 11,381,836</u>

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2017

Changes in long-term liabilities for the year ended December 31, 2017, for the component units were as follows:

	Balance December 31, 2016	Increases	Decreases	Balance December 31, 2017	Amount Due in One Year
Component Units:					
Business-type activities					
Parking Authority:					
Compensated absences	\$ 453	\$ 208	\$ -	\$ 661	\$ 7
Airport Commission:					
Bonds payable - revenue bonds	2,305,000	-	195,000	2,110,000	200,000
Total business-type activities	<u>\$ 2,305,453</u>	<u>\$ 208</u>	<u>\$ 195,000</u>	<u>\$ 2,110,661</u>	<u>\$ 200,007</u>
Governmental activities					
Public Library					
Net pension liabilities	\$ 1,742,013	\$ -	\$ (23,836)	\$ 1,718,177	\$ -
Total governmental activities	<u>\$ 1,742,013</u>	<u>\$ -</u>	<u>\$ (23,836)</u>	<u>\$ 1,718,177</u>	<u>\$ -</u>
Total Component Units	<u>\$ 4,047,466</u>	<u>\$ 208</u>	<u>\$ 171,164</u>	<u>\$ 3,828,838</u>	<u>\$ 200,007</u>

Operating Leases

The City leases office space under a noncancelable operating lease. Total costs for the lease to the General Fund were \$298,000 for the year ended December 31, 2017. The future minimum lease payments for the lease is \$50,000 due in 2018.

Capital Leases

The City has entered into lease agreements for the acquisition of capital assets in 2009 through 2017. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the inception date in the statement of net position.

In accordance with Amendment 78 of the Arkansas Constitution, Arkansas state statutes limit the amount of short-term financing, including capital leases, the City may have in any fiscal year to five percent (5%) of the assessed valuation of property within the City. The limit applies to the reporting entity governmental activities. The governmental activities had no capital leases payable considered short-term financing as of December 31, 2017. The limit as of December 31, 2017 was \$68.5 million; therefore, management believes the City is in compliance with state statutes for short-term financing at December 31, 2017.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2017

Sales and Use Tax Bonds- Governmental Activities

On May 22, 2012, the City issued \$110,660,000 Sales and Use Tax Refunding and Improvement Bonds, Series 2012. The bonds were issued to advance refund the outstanding Sales and Use Tax Refunding and Improvement Bonds, Series 2006, Sales and Use Tax Bonds, Series 2008, and Sales and Use Tax & Water and Sewer Revenue Bonds, Series 2009. The 2006 and 2008 Bonds were redeemed on September 1, 2013 and the 2009 Bonds were redeemed September 1, 2014. The reacquisition price exceeded the carrying amount of the old debt by \$1,483,000. The unamortized amount is netted against the new debt and is being amortized over the refunded debt's life using the straight-line method. The bonds were also issued to fund \$39.4 million in wastewater improvements; \$20.7 million in water system improvements; \$8.6 million in fire improvements; and \$4 million in aquatic center improvements. The bonds are due May 1, 2013 through May 1, 2027 in varying amounts with interest ranging from 1% to 5%, payable semiannually. The effective interest rate on the 2012 bonds is 3.05%. On March 13, 2012, voters approved the reauthorization of two ½% sales and use taxes for these bonds and for operation costs. The bonds are supported by .75% sales and use tax. The bonds are subject to mandatory redemption in inverse order from surplus tax collections on any payment date. During 2014, \$1,555,000 of the 2012 bonds was called. The remaining .25% sales and use tax is used for fire and park operations.

On February 27, 2014, the city issued \$34.295 million in Sales and Use Tax Bonds, Series 2014. Citizens approved the bonds in a referendum on March 13, 2012. These are additional bonds for water and wastewater improvements. A total of \$6 million is allocated to water improvements including transmission lines, water storage and pump stations. A total of \$28 million is allocated to wastewater improvements including wet weather sewer improvements. The 2014 Bonds are supported by the ¾% local sales and use tax that supports the 2012 Sales and Use Tax Bonds and were issued on parity with the 2012 Bonds. The 2014 Bonds carry interest ranging from 2% to 5% through May 1, 2029. The bonds are subject to mandatory redemption in inverse order on any interest payment date from the collection of excess sales taxes. During 2014, \$1,555,000 of the 2012 bonds were called.

Bond Retirement - The City is required to maintain a debt service reserve equal to \$5,533,000 during the life of the 2012 Bonds and \$1,714,750 during the life of the 2014 Bonds. The City held U.S. Treasury Bills at a carrying amount of \$5,523,163 at December 31, 2017 for the 2012 Bonds and \$1,713,789 for the 2014 Bonds. The U.S. Treasury Bills for the 2012 Bonds and 2017 Bonds met requirements once interest was considered.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2017

Maturity Schedule – The debt service requirements for the Sales Tax Bonds at December 31, 2017 is as follows:

Sales Tax Bonds Maturity Schedule

	<u>Principal</u>	<u>Interest</u>
2018	\$ 7,415,000	\$ 3,197,635
2019	7,670,000	2,927,385
2020	7,960,000	2,628,460
2021	8,270,000	2,311,360
2022	8,590,000	1,981,660
2023-2027	40,270,000	4,140,876
2028	<u>4,225,000</u>	<u>58,094</u>
Total	84,400,000	<u>\$ 17,245,470</u>
 Add unamortized bond premium	 <u>4,516,358</u>	
 Net bonds outstanding at December 31, 2017	 <u>\$ 88,916,358</u>	

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2017

Revenue Bonds - Business-Type Activities

Revenue bonds outstanding at December 31, 2017, are comprised of the following individual issues:

Water and Sewer:

\$117,420,000 of Series 2008 Water and Sewer Refunding and Construction Revenue Bonds; due in varying amounts through October 1, 2033 with interest ranging from 4% to 5.25% payable semiannually	\$ 66,260,000
\$18,920,000 of Series 2011 Water and Sewer Refunding Revenue Bonds; due in varying amounts through October 1, 2023 with interest ranging from 2% to 4.5% payable semiannually	9,605,000
\$13,250,000 of Series 2012 Water and Sewer Refunding Revenue Bonds; due in varying amounts through October 1, 2019 with interest ranging from 2% to 3.807% payable semiannually	4,070,000
\$35,000,000 of Series 2015 Water and Sewer Refunding and Construction Revenue Bonds; due in varying amounts through October 1, 2040 with interest ranging from 2% to 4% payable semiannually	33,205,000
\$56,955,000 of Series 2016 Water and Sewer Refunding Revenue Bonds; due in varying amounts through October 1, 2032 with interest ranging from 1.7% to 4.4% payable semiannually	<u>55,765,000</u>
Bonds outstanding, December 31, 2017	168,905,000
Unamortized bond premium	<u>8,241,166</u>
Net bonds outstanding, December 31, 2017	<u><u>\$ 177,146,166</u></u>

Water and Sewer-

On November 21, 2007, the City issued \$24,470,000 Water and Sewer Revenue Bonds, Series 2007. The 2007 Bonds were issued to provide funding for improvements to the water and sewer facilities including new sewer pump stations, sewer extensions in the southern growth area of the City, the Mountainburg water treatment plant rehabilitation and expansion, Midland Boulevard water transmission line replacement, neighborhood water line replacements, new water line from Mountainburg to the City, water storage tank painting, Lee Creek water plant instrumentation, and water transmission system metering. The 2007 Bonds were issued as additional bonds on a parity of security with the 2005B bonds. In December 2016, the City fully refunded the outstanding Series 2007 Bonds with the issuance of the Water and Sewer Refunding Revenue Bonds, Series 2016.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2017

On August 6, 2008, the City issued \$117,420,000 Water and Sewer Refunding and Construction Revenue Bonds, Series 2008. The 2008 Bonds were issued to advance refund the 2002A Bonds and to provide funding for improvements to the water and sewer facilities. The sewer improvements include extensions in growth areas of the City and the water improvements include the Mountainburg water treatment plant rehabilitation and expansion, the replacement of neighborhood water lines, and the Howard Hill elevated water storage tank. The 2008 Bonds advance refunded \$66.475 million of the outstanding Series 2002A Bonds. The carrying amount of the old debt exceeded the reacquisition price by \$440,770. The unamortized amount is netted against the new debt and is being amortized over the refunded debt's life using the straight-line method. The remaining unamortized deferred amount on refunding was \$45,161 as of December 31, 2017. The 2008 Bonds were issued as additional bonds on a parity of security with the 2005B and 2007 bonds. In December 2016, the City partially refunded the outstanding Series 2008 Bonds with the issuance of the Water and Sewer Refunding Revenue Bonds, Series 2016.

On November 10, 2011, the City issued \$18,920,000 Water and Sewer Refunding Revenue Bonds, Series 2011, to refund the outstanding \$2,325,000 of 2002B Series Bonds and to refund the outstanding \$16,595,000 of 2002C Series Bonds. The reacquisition price exceeded the carrying amount of the old debt by \$93,625. The unamortized amount is netted against the new debt and is being amortized over the refunded debt's life using the straight-line method. The deferred amount on refunding was \$39,011 as of December 31, 2017. The City completed the refunding to obtain an economic gain of \$1,372,849 over the remaining life of the bonds.

On February 23, 2012, the City issued \$13,250,000 Water and Sewer Revenue Refunding Bonds, Series 2012, to refund the outstanding 2005A Water and Sewer Revenue Refunding Bonds. The bonds are due in varying amounts on October 1, 2012 through 2019 with interest rates ranging from 2% to 3.807%, payable semiannually. The reacquisition price exceeded the carrying amount of the old debt by \$265,391. The unamortized amount is netted against the new debt and is being amortized over the refunded debt's life using the straight-line method. The deferred amount on refunding was \$37,913 as of December 31, 2017. The City completed the refunding to reduce its total debt service payments over the next seven (7) years by \$1,803,168 and to obtain an economic gain of \$1,115,323.

On December 1, 2015, the City issued \$35,000,000 Water and Sewer Refunding and Construction Revenue Bonds, Series 2015, to finance the cost of acquiring, constructing, and equipping water and sewer improvements, current refunding of the City's Water and Sewer Revenue Bonds, Series 2005B, providing a debt service reserve and paying costs incidental thereto. The bonds are due in varying amounts on October 1, 2015 through 2040 with interest rates ranging from 2% to 4%, payable semiannually. The old amount of debt exceeded the reacquisition price by \$59,621. The unamortized amount is netted against the new debt and is being amortized over the refunded debt's life using the straight-line method. The deferred amount on refunding was \$47,697 as of December 31, 2017. The City completed the refunding to reduce its total debt service payments over the next ten (10) years by \$547,391 and to obtain an economic gain of \$493,245.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2017

On December 1, 2016, the City issued \$56,955,000 Water and Sewer Refunding Revenue Bonds, Series 2016, to finance the cost of acquiring, constructing, and equipping water and sewer improvements, current full refunding of the City's Water and Sewer Revenue Bonds, Series 2007 and partial refunding of the City's Water and Sewer Revenue Bonds, Series 2008, providing a debt service reserve and paying costs incidental thereto. The bonds are due in varying amounts on October 1, 2017 through 2032 with interest rates ranging from 1.7% to 4.4%, payable semiannually. The reacquisition price exceeded the old amount of debt exceeded by \$3,092,522. The unamortized amount is netted against the new debt and is being amortized over the refunded debt's life using the straight-line method. The deferred amount on refunding was \$2,811,384 as of December 31, 2017. The City completed the refunding to reduce its total debt service payments over the next fifteen (15) years by \$4,829,701 and to obtain an economic gain of \$3,691,784.

The Series 2008, 2011, 2012, 2015 and 2016 Revenue Bonds are collateralized by revenue of the water and sewer system and the various special funds established by the authorizing bond ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system, second to establish and maintain the revenue bond funds and third to pay the cost of replacements made necessary by the depreciation of the system. Any remaining revenues may then be used for redemption of the bonds prior to maturity, as discussed previously, for the purchase of bonds at a price not to exceed par and accrued interest, for construction, extension, betterments and improvements to the system, or for any other lawful purpose.

Per the Bond Authorizing Ordinances, the City covenants that the rates shall, if and when necessary, from time to time, be increased in such manner as will produce net revenues (net revenues being defined as gross revenues of the System less the amounts required to pay the costs of operation, maintenance, and repair of the System, including all expense items properly attributable to the operation and maintenance of the System in accordance with generally accepted accounting principles applicable to municipal water and sewer systems (excluding depreciation, interest and amortization expenses)) at least equal to 110% of current year's debt service on all System Bonds and the amount needed to make the deposits into the Depreciation Fund and the Debt Service Reserve and to reimburse bond insurers for any amounts owed in connection with a Qualified Surety Bond.

The ordinances also contain provisions that, among other items, restrict the issuance of additional revenue bonds unless the special funds noted above contain the required amounts and certain financial ratios are met. As of December 31, 2017, the City is in compliance with all applicable requirements.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2017

However, the City may not authorize or issue any such additional bonds ranking on a parity of security with outstanding Bonds, unless and until either: (1) there shall have been procured and filed with the Trustee a statement by an Accountant reciting that, based upon necessary investigation, the net revenues of the System for the fiscal year immediately preceding the fiscal year in which it is proposed to issue such additional bonds shall equal not less than 125% of the average annual principal and interest requirements on the System Bonds then outstanding and the additional bonds proposed to be issued; or (2) there shall have been procured and filed with the Trustee a statement by an Accountant reciting, based upon necessary investigation, that the net revenues of the system for the next ensuing fiscal year as reflected by a certificate of a duly qualified consulting engineer not in the regular employ of the City and approved by the Trustee, and taking into consideration any rate increase, shall be equal to not less than 130% of the average annual principal and interest requirements on all of the System Bonds then outstanding and the additional bonds then proposed to be issued.

Restricted accounts required by the bond ordinances are as follows:

Bond Retirement - The City is required to restrict funds for the payment of principal, interest, and trustee and paying agents' fees up to a maximum of \$8,196,335 related to the 2008 Bonds, \$1,892,000 related to the 2011 Bonds, \$1,325,000 related to the 2012 Bonds, \$2,331,150 related to the 2015 Bonds and \$5,695,500 related to the 2016 Bonds. The City held surety bonds valued at \$11,712,104, \$1,892,000, \$1,325,000, \$2,330,118 and \$5,695,500 at December 31, 2017 for this purpose. The surety bond for the 2015 Bonds met requirements once accrued interest was considered.

Asset Replacement- The City is required to deposit 3% of the gross revenues of the water and sewer system for the then preceding month plus \$5,000 per month until the sum of \$500,000 has been accumulated in the Depreciation Fund. Amounts are to be used for replacements made necessary by the depreciation of the system. The City has accumulated \$500,000 for asset replacement as of December 31, 2017. Amounts are reported in restricted investments in the fund level and government-wide financial statements.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2017

Maturity Schedule

Aggregate debt service requirements at December 31, 2017 for business-type activity related bonds were as follows:

		Total Business-Type Activities	
		Water and Sewer	
		Principal	Interest
	2018	\$ 7,050,000	\$ 7,720,005
	2019	7,275,000	7,487,593
	2020	7,540,000	7,237,826
	2021	7,820,000	6,952,850
	2022	8,175,000	6,598,400
	2023-2027	49,965,000	27,031,288
	2028-2032	65,500,000	13,153,437
	2033-2037	9,120,000	2,526,400
	2038-2042	6,460,000	523,400
	Total	168,905,000	<u>\$ 79,231,199</u>
	Add unamortized bond premium	<u>8,241,166</u>	
	Net bonds outstanding as of December 31, 2017	<u>\$ 177,146,166</u>	

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2017

Pledged Revenues for the City

The following is a summary of pledged revenues for the City for the year ended December 31, 2017.

Debt	Revenue Pledged	Total Pledged Revenue	Portion of Pledged Revenue Stream	Percentage Portion of Pledged Revenue Stream	Remaining Principal, Interest and Fees	Period Revenue Will Not Be Available for Other Purposes
Governmental Activities:						
Sales and Use Tax Refunding and Improvement Bonds - Series 2012	3/4 Cent City Sales Tax	\$ 15,903,107	\$8,585,000	54.0%	\$ 73,747,023	Until 2027
Sales and Use Tax Bonds - Series 2014	3/4 Cent City Sales Tax	15,903,107	3,735,000	23.5%	27,898,447	Until 2028
					101,645,470	
Business-Type Activities:						
Water and Sewer Refunding and Construction Revenue Bonds, Series 2008	Revenues of the Enterprise Fund	55,851,653	850,000	1.5%	\$ 100,680,303	Until 2033
Water and Sewer Refunding Revenue Bonds, Series 2011	Revenues of the Enterprise Fund	55,851,653	1,455,000	2.6%	10,863,098	Until 2023
Water and Sewer Refunding Revenue Bonds, Series 2012	Revenues of the Enterprise Fund	55,851,653	1,930,000	3.5%	4,297,600	Until 2019
Water and Sewer Refunding and Construction Revenue Bonds, Series 2015	Revenues of the Enterprise Fund	55,851,653	850,000	1.5%	78,728,650	Until 2040
Water and Sewer Refunding Revenue Bonds, Series 2016	Revenues of the Enterprise Fund	55,851,653	1,190,000	2.1%	53,566,548	Until 2032
					248,136,199	

Component Units Revenue Bonds-Business-Type Activities

Airport Commission-

On August 2, 2011, the Airport Commission issued \$3,205,000 of City of Fort Smith, Arkansas Airport Refunding and Improvement Revenue Bonds, Series 2011, to refund the remaining outstanding Series 1999 Bonds. The bonds bear interest at 1.5% to 5.35%, payable semi-annually and the bonds are payable in annual installments through October 1, 2026. All the bonds still outstanding may be redeemed at the Airport's option on or after October 1, 2020. At December 31, 2017, bonds payable were \$2,110,000.

Maturities of revenue bonds payable for succeeding years are as follows:

	Principal	Interest
2018	\$ 200,000	\$ 102,368
2019	210,000	94,567
2020	215,000	85,328
2021	225,000	75,330
2022	240,000	64,530
2023-2026	1,020,000	132,623
Total Payments	\$ 2,110,000	\$ 554,746

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2017

The bond covenants require the maintenance of the following restricted account:

Bond Retirement - The Airport Commission is required to maintain funds for the payment of principal, interest and trustee and paying agents' fees of \$382,419 , which are classified as restricted assets on the balance sheet, as of December 31, 2017. The Airport Commission held cash and investments equal to this amount at December 31, 2017.

Applicability of Federal Arbitrage Regulations

Debt issuances of the City and various Authorities issued after the Tax Reform Act of 1986 are subject to the federal arbitrage regulations. The arbitrage rebate regulations require that all earnings from the investment of gross proceeds of a bond issue in excess of the amount that could have been earned had the yield on the investment been equal to the yield on the bonds be remitted to the federal government. These rules carry strict penalties for noncompliance including taxability of interest retroactive to the date of the issue. City management believes the City is in compliance with these rules and regulations.

At December 31, 2017, the City has no arbitrage payable.

Conduit Debt Obligations

From time to time, the City has issued various bonds to provide financial assistance to private sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the state, the City, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported in the accompanying financial statements.

As of December 31, 2017, there were eighteen series of Industrial Development Revenue Bonds outstanding with an aggregate principal amount payable of \$280,518,000, one series of Fair and Exhibition Facilities Bonds outstanding with an aggregate principal amount payable of \$2,900,000, and two series of Residential Housing Facilities Board Multi-Family Housing Revenue Bonds outstanding with an aggregate principal payable of \$6,375,000.

Prior year defeasance of debt. In prior years, the government defeased general obligation public improvement bonds by placing the proceeds of the new bonds in an irrevocable trust account to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the government's financial statements. At June 30, 2022, \$12,230,000 of the defeased bonds remain outstanding.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2017

Note 5: Risk Management

The City is exposed to various risks of loss related to the City's self-insurance of workers' compensation and health and other medical benefits provided to employees and retirees, and their dependents and beneficiaries. The City accounts for these programs through the Employee Insurance Fund and Workers' Compensation Fund. Each fund is an internal service fund. In addition, the City limits property and casualty losses and manages risk through the purchase of insurance policies with several different carriers. The City has not recognized any settlements that exceeded insurance coverage during the past three years.

All funds of the City participate in the City's insurance programs and make payments to the respective self-insurance funds based on estimates of the amounts needed to pay prior and current year claims and to establish a reserve for future claims. The Airport Commission and the Fort Smith Public Library participate in the City's health plans by making contributions as required by the City. At December 31, 2017, the net position was \$3,530,883 and \$429,829 in the Employee Insurance and Workers' Compensation Funds, respectively. The claims liability balances of \$860,814 and \$789,601 reported in the Employee Insurance and Workers' Compensation Funds, respectively, are based on the requirements of GASB Statement 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The claims liability includes the effect of specific incremental claims, adjustment expenses, and if probable and material, salvages and subrogation. These liabilities include accruals for claims incurred but not reported, based upon the City's historical claims rate. These liabilities are the City's best estimate based on available information. Changes in the reported liabilities during 2017 are detailed below:

	Employee Insurance	Workers' Compensation
Self-insurance liability, December 31, 2015	\$ 1,330,659	\$ 668,170
Current year claims and changes in estimate	6,717,535	463,211
Claim payments	<u>(7,191,838)</u>	<u>(521,496)</u>
Self-insurance liability, December 31, 2016	856,356	609,885
Current year claims and changes in estimate	8,795,729	1,156,274
Claim payments	<u>(8,791,271)</u>	<u>(976,558)</u>
Self-insurance liability, December 31, 2017	<u>\$ 860,814</u>	<u>\$ 789,601</u>

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2017

Note 6: Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. International City Management Association Retirement Corporation (ICMARC) administers the Plan. All assets and income of the trust are for the exclusive benefit of eligible employees and their beneficiaries. The City does not have any fiduciary responsibility or administrative duties relating to the deferred compensation plan other than remitting employees' contributions to the trustees. Accordingly, the City has not presented the assets and liabilities from the plan in these basic financial statements. Deferred compensation investments are held by outside trustees. Plan investments are chosen by the individual (employee) participant and include mutual funds whose focus is on stocks, bonds, treasury securities, money market-type investments or a combination of these.

The Plan, available to all permanent City employees, permits them to defer until future years up to 25% of annual gross earnings not to exceed \$17,500. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Note 7: Pension Plans

The City of Fort Smith, Arkansas participates in one defined contribution plan as described below. The City also participates in four defined benefit pension plans; which are comprised of two agent multiple-employer defined benefit pension plans and two cost-sharing multiple-employer defined benefit pension plans, each of which are described and illustrated in detail below.

Aggregate amounts for the four pension plans are as follows:

	<u>FRPF</u>	<u>PRPF</u>	<u>LOPFI</u>	<u>APERS</u>	<u>Total</u>
Net pension liability	\$19,175,115	\$18,634,616	\$24,639,054	\$ 125,123	\$62,573,908
Deferred outflows of resources	934,780	544,259	6,167,570	28,344	7,674,953
Deferred outflows of resources - contributions	1,835,156	1,069,269	2,904,425	6,436	5,815,286
Deferred inflows of resources	-	-	2,048,154	3,257	2,051,411
Pension expense	1,608,492	1,933,188	4,438,722	21,586	8,001,988

(a) Public Employees Retirement System (Defined Contribution Plan)

Plan Description

Effective April 1, 1997, the Public Employees' Retirement System (PERS) was converted to a money purchase retirement plan, a defined contribution plan, that is qualified under Section 401(a) of the Internal Revenue Code (the 401(a) Plan). ICMARC serves as administrator of the 401(a) Plan. All full-time, non-uniformed employees with the exception of the three district judges and the District Court Clerk are covered by the 401(a) Plan. Each participant has a plan account to which the contributions are made and each participant manages their account by selecting various investments options offered by ICMARC.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

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The present value of each PERS active member account at March 31, 1997, was transferred to ICMARC in the participant's name. An annuity contract from an insurance company was purchased to continue to provide benefit payments to beneficiaries of PERS. The remaining balance of approximately \$1,700,000 was transferred to the Employee Insurance Fund to provide for future employee benefits. Additionally, the contract was purchased whereby all beneficiaries will receive a 3% cost of living adjustment every three years beginning January 1, 1998. The present value of the deferred members of PERS may be withdrawn or rolled into a qualified plan at the member's choice.

Benefits Provided

Plan benefits are based upon the total amount of money in an individual's account at retirement. Plan provisions and contribution rates are established by the 401(a) Plan agreement between the Board and ICMARC. Approval from both the Board and ICMARC is required for 401(a) Plan amendments.

Contributions

Employees make no contributions to the 401(a) Plan; however, the City makes contributions equal to 5% of each covered employees' earnings. Employer contributions to the PERS plan totaled \$2,606,026 for 2017.

(b) Arkansas Public Employees' Retirement System

On January 1, 2005, the district court clerk became a member of the Arkansas Public Employees' Retirement System (APERS). APERS is administered by the state as a defined benefit plan. The employer contribution rate was 14.50% of covered payroll 2017. The Clerk's contribution rate was 4.7% of covered payroll for 2017. The City's contributions to the Plan for the year ended December 31, 2017 were \$12,872.

Benefits Provided

Benefits under APERS are calculated depending on the member's hire date, with retirees separated into two separate categories; the non-contributory plan applies to all persons hired prior to July 1, 2005, while the new contributory plan applies to all employees hired on or after July 1, 2005. Under both plans, a member may retire with full benefits at either the age of 65 with five years of service, or at any age with 28 years of service. The member may retire with reduced benefits at either the age of 55 with five years of service or at any age with 25 years of service. The reduction is equal to one-half of one percent for each month retirement precedes normal retirement age or one-percent for each month below 28 years of actual service, whichever is less. Under the non-contributory plan, the benefit calculation is equal to a factor of 1.72% of the member's final average salary multiplied by the years and months of credited service. Under the new contributory plan, the benefit calculation is equal to a factor of 2.00% of the members final average salary multiplied by the years of credited service. Under each plan, an additional .5% of the member's final average salary is awarded for each year of credited service exceeding 28 years. The minimum monthly benefit is \$150, excluding any age and beneficiary option reductions.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

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Under both the non-contributory and contributory plan, the member's final average salary is the highest 36 calendar months of covered compensation. In addition, a cost-of-living adjustment of 3% annually is included in the current benefits.

Covered payroll for the clerk was \$87,267 for the fiscal year ended December 31, 2017. There is one retired clerk receiving benefits from APERS.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2017, the City reported a liability of \$125,123 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the ratio of the City's actual contributions to the Plan during the measurement period to total employee contributions to the Plan of the year for the measurement period. At June 30, 2017, the City's proportion was 0.00484195%, which is an increase of .00002544% from its proportion as of June 30, 2016, of .00481651%.

For the year ended December 31, 2017, the City recognized pension expense of \$21,586. At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,426	\$ 2,461
Change of assumptions	20,132	-
Changes in proportion	543	-
Net difference between projected and actual earnings on pension plan investments	5,243	796
Contributions subsequent to the measurement date	<u>6,436</u>	<u>-</u>
Total	<u><u>\$ 34,780</u></u>	<u><u>\$ 3,257</u></u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
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The amount reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$6,436 will be recognized as a reduction of the net pension liability for the year ended December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Plan will be recognized in pension expense as follows:

Year Ending June 30	
2018	\$ 6,701
2019	12,018
2020	7,697
2021	<u>(1,329)</u>
Total	<u>\$ 25,087</u>

Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Inflation	3.25 percent (2.50 percent in prior year)
Discount rate	7.15 percent (7.50 percent in prior year)
Salary increases	3.25 to 9.85 percent, including inflation (3.95 to 9.85 percent, including inflation, in prior year)
Investment rate of return	7.15 percent, net of pension plan investment expense, including inflation (7.50 percent, including inflation, in prior year)

Mortality rates were based on the RP-2000 Combined Healthy Mortality Table for Males and Females, as appropriate, with adjustments for mortality improvements based on scale BB. The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2007 through June 30, 2012. As a result of the 2012 actuarial experience study, the expectation of life after disability was adjusted in the June 30, 2017 actuarial evaluation to more closely reflect actual experience.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
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Long-term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the current asset allocation percentage and by adding expected price inflation. The long-term expected rates of return are shown in the table below:

Long-term Expected Real Rate of Return		
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Broad Domestic Equity	37%	5.97%
International Equity	24%	6.54%
Real Estate Related Assets	16%	4.59%
Absolute Return	5%	3.15%
Domestic Fund	18%	0.83%
Total	100%	

Discount Rate

In the June 30, 2017 actuarial valuation, a single discount rate of 7.15% (7.50% in prior year) was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.15%. The projection of cash flows, based on the assumptions made, found that the pension plan's net position was available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

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Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.15 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.15 percent) or 1-percentage-point higher (8.15 percent) than the current rate:

	Sensitivity of the Net Pension Liability to the Single Discount Rate Assumption		
	1% Decrease 6.15%	Current Single Rate Assumption 7.15%	1% Increase 8.15%
City's proportionate share of the net pension liability	\$ 190,546	\$ 125,123	\$ 70,799

Fort Smith Public Library – Arkansas Public Employees' Retirement System (Component Unit)

Plan Description

The Fort Smith Public Library (the Organization) participates in the Arkansas Public Employees Retirement Systems (APERS). APERS is a cost-sharing, multiple employer, defined benefit plan which covers all State employees who are not covered by another authorized plan. The plan was established by the authority of the Arkansas General Assembly with passage of Act 177 of 1957. The costs of administering the plan are paid out of investment earnings.

The general administration and responsibility for the proper operation of the System is vested in the nine members of the Board of Trustees of the Arkansas Public Employees Retirement System (the Board). Membership includes three state and three non-state employees, all appointed by the Governor, and three ex-officio trustees, including the Auditor of the State, the Treasurer of the State and the Director of the Department of Finance and Administration.

The state of Arkansas issues an annual report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 West Capitol, Suite 400, Little Rock, Arkansas 72201.

Funding Policy: The Organization contributes an actuarially determined amount to the plan, which was 14.50% of annual covered payroll at December 31, 2017. Contributions made by the Organization were \$189,225 and \$191,379 for the years ended December 31, 2017 and 2016, respectively. Employees are not required to contribute to the plan.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

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Benefits Provided

Benefit provisions are set forth in Arkansas Code Annotated, Title 24, Chapters 5 and 6 and may only be amended by the Arkansas General Assembly. APERS provides retirement, disability and death benefits. Retirement benefits are determined as a percentage of the member's highest 3-year average compensation times the member's years of service. The percentage used is based upon whether a member is contributory or non-contributory as follows:

Contributory, prior to 7/1/2005	2.07%
Contributory, on or after 7/1/2005	2.03%
Non-Contributory	1.72%

Members are eligible to retire with a full benefit under the following conditions:

- At age 65 with 5 years of service,
- At any age with 28 years actual service,
- At age 60 with 20 years of actual service if under the old contributory plan (prior to July 1, 2005), or
- At age 55 with 35 years of credited service for elected or public safety officials.

Members may retire with a reduced benefit at age 55 with at least 5 years of actual service or at any age with 25 years of actual service.

Members are eligible for disability benefits with 5 years of service. Disability benefits are computed as an age and service benefit, based on service and pay at disability. If a death occurs while in APERS covered employment, member's accumulated contributions are refundable. If a member had 5 years service, monthly benefits are payable instead. The surviving spouse receives a benefit computed as if a member had retired and elected the Joint & 75% Survivor Option. Payment begins immediately. Each dependent receives benefit of 10% of compensation (maximum of 25% for all children). If death occurs after retirement, if total monthly benefit payments equal member's accumulated contributions, the difference is refunded.

Contributions

Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 4. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered (A.C.A. 24-2-701(a)). Members who began service prior to July 1, 2005 are not required to make contributions to APERS. Members who began service on or after July 1, 2005 are required to contribute 5% of their salary. Employers are required to contribute at a rate established by the Board of Trustees of APERS based on an actuary's determination of a rate required to fund the plan (A.C.A. 24-2-701(c)(3)). Employers contributed 14.50% of compensation for the fiscal year ended December 31, 2017. In some cases, an additional 2.5% of member and employer contributions are required for elected officials.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2017

APERS Fiduciary Net Position

Detailed information about APERS's fiduciary net position is available in the separately issued APERS Financial Report available at <http://www.apers.org/annualreports>.

Measurement Date

The collective net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Each employer's proportion of the net pension liability was based on the employer's share of contributions to the pension plan relative to the total contributions of all participating employers. The Library's proportion at June 30, 2017, was 0.0064893% which is a decrease of 0.00063572% from its proportion as of June 30, 2016 of .007284649%.

Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed (Level Dollar, Closed for District Judges New Plan and Paid Off Old Plan and District Judges Still Paying Old Plan)
Remaining Amortization Period	25 years (13 years for District Judges New Plan/Paid Off Old Plan and 20 years for District Judges Still Paying Old Plan)
Asset Valuation Method	4-Year smoothed market; 25% corridor (Market Value for Still Paying Old Plan)
Inflation	3.25% wage inflation; 2.50% price inflation
Salary Increases	3.95% - 9.85% including inflation (3.25% - 6.96% including inflation for District Judges)
Investment Rate of Return	7.50%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality Table	Based on RP-2000 Combined Healthy mortality table, projected to 2020 using Projection Scale BB, set-forward 2 years for males and 1 year for females

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

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Long-term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the current asset allocation percentage and by adding expected price inflation. Best estimates of arithmetic real rates of return for the 10-year period from 2015 to 2024 were based upon capital market assumptions provided by the plan's investment consultant(s). For each major asset class that is included in the pension plan's current asset allocation as of June 30, 2017, these best estimates are summarized in the following table:

Long-term Expected Real Rate of Return		
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Broad Domestic Equity	37%	5.97%
International Equity	24%	6.54%
Real Estate Related Assets	16%	4.59%
Absolute Return	5%	3.15%
Domestic Fund	18%	0.83%
Total	100%	

Single Discount Rate

A single discount rate of 7.15% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.15%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
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Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 7.15%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage point lower (6.15 percent) or 1-percentage point higher (8.15 percent):

	Sensitivity of the Net Pension Liability to the Single Discount Rate Assumption		
	1% Decrease 6.15%	Current Single Rate Assumption 7.15%	1% Increase 8.15%
City's proportionate share of the net pension liability	\$ 2,616,562	\$ 1,718,177	\$ 972,207

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

At December 31, 2017, the Library reported a liability of \$1,718,177 for its proportionate share of the net pension liability.

The Organization's proportionate share of pension expense was \$267,933 for the year ended December 31, 2017. At December 31, 2017, the Organization reported deferred outflows or resources and deferred inflows of resources related to pensions from the following resources:

Library

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 33,308	\$ 33,793
Change of assumptions	276,452	-
Net difference between projected and actual earnings on pension plan investments	71,997	-
Changes in proportion	13,594	119,474
Organization contributions subsequent to the measurement date	94,284	-
Total	\$ 489,635	\$ 153,267

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
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\$94,284 reported as deferred outflows of resources related to pensions resulting from Organization contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31,	Net Reduction in Pension Expense
2017	\$ 62,275
2018	131,863
2019	73,510
2020	(25,563)
	\$ 242,085

(c) Fire Relief and Pension Plan ("FRPF") (the Old Fire Plan)

Plan Description

The Fire Relief and Pension Plan ("FRPF") is an agent multiple-employer defined benefit pension plan for employees of the Fire Department who were hired prior to January 1, 1983. The Old Plan was established in accordance with Arkansas statutes and were closed, by state law, to new employees effective January 1, 1983. On September 20, 1990, the City entered into an agreement with the Arkansas local police and fire (LOPFI) retirement system whereby LOPFI assumed responsibility for administration and a portion of the obligation of the Old Plans pursuant to Act 364 of 1981, as amended, and Act 655 of 1983 of the General Assembly of the State of Arkansas. Per the Agreement between the City and LOPFI, the City will contribute an actuarially determined rate sufficient to support the current plan benefit levels and fund the Old Fire Plan's net pension obligation over a 30 year open amortization period. The Old Fire Plan's benefit structure remains unchanged under the administration by LOPFI. The assets of the Old Fire Plan are included in the pooled assets of the LOPFI system and a financial report that includes disclosures about the elements of the basic financial statements is available on the LOPFI's website at www.lopfi-prb.com

Benefits

The FRPF provides retirement benefits for firemen who have completed 20 years of service. Disability benefits are available to firemen who become permanently disabled, unless the disability is the direct result of gainful employment performed outside the fire department. The FRPF also provides benefits for surviving spouses and dependent children of deceased firemen. No participants' benefits vest until normal retirement age. At normal requirement age, participants may elect to continue working and enter the Deferred Retirement Option Plan for up to 5 years. All firemen hired after January 1, 1983, participate in the Arkansas Local Police and Fire Retirement System created by Act 364 of 1981 and detailed later in this footnote. Therefore, the Firemen's Fund is effectively closed to new members.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

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Pension benefit provisions and all other requirements, including vesting, are established by state statute. Participants in the Old Fire Plan became eligible for membership as of the first date of employment. Members of the Old Fire Plan who retire with 20 years of credited service are entitled to a retirement benefit payable monthly for life equal to one-half of the participant's annual salary. Employees become vested after 20 years of service. Members with more than 25 years of service credit may be entitled to a maximum of 100% of their highest annual salary.

At the December 31, 2016 valuation and measurement date, the following were covered by the benefit terms:

Retirees and beneficiaries	112
DROP members	<u>1</u>
Total	<u><u>113</u></u>

Contributions

Arkansas state statutes require yearly contributions at a level percentage of covered payroll sufficient to cover the costs of benefit commitments made to participants for their service rendered in that year and, over a reasonable period of time, to fully cover the unfunded costs of benefit commitments for services previously rendered. The City is required to contribute the actuarially required normal costs and amortized costs of the unfunded actuarial accrued liability. In addition, active employees are required to make contributions equal to 6% of their gross salary to the Old Plans. The contributions for the 2017 plan year were based upon the December 31, 2016, actuarial report. Contributions to the Plan by the City were \$1,835,156 for the year ended December 31, 2017.

Net Pension Liability

The City's net pension liability of \$19,175,115 as of December 31, 2017 was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016.

Actuarial Assumptions

The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement for the Old Fire Plan:

Valuation date	December 31, 2016
Cost method	Entry age normal
Asset valuation method	Smooth market over a period of 5 years
Amortization method	Level percentage
Amortization period	24 years closed

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2017

Assumptions:

Inflation rate - price	3.00 percent (2.75 percent in prior year)
Wage inflation	4.00 percent (3.75 percent in prior year)
Investment rate of return	7.75 percent (7.75 percent in prior year)
Projected salary increases	4.25 to 18.75 percent, including inflation (4.25 to 18.75 percent, including inflation, in prior year)

Mortality rates for retirees, beneficiaries, and DROP members were based on the gender distinct RP-2000 Combined Mortality Table, projected to 2017 and set forward two years for males. For disabled members, the mortality rates are the rates applicable to non-disabled lives set forward 10 years.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in FRPF was for the period January 1, 2008 through December 31, 2011, first used in the December 31, 2012 valuation. Assumptions are reviewed annually. No additional changes were made for the 2016 valuation.

Long-term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return. The rates were built on a target allocation for all pension funds; the target for an individual fund will vary within the guidelines of Arkansas law and regulation. The long-term expected rates of return are shown in the table below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Fixed Income	30%	2.97%
International Fixed Income	6%	1.50%
Domestic Equity	33%	5.88%
Foreign Equity	7%	6.25%
Index	11%	6.73%
Alternative Investments	10%	6.13%
Cash	3%	-0.40%
Total	100%	

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

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Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of retired and DROP members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at January 1, 2017	\$ 33,478,708	\$ 14,185,631	\$ 19,293,077
Changes for the year:			
Interest	2,458,896	-	2,458,896
Differences between expected and actual experience	(151,195)	-	(151,195)
Assumption changes	-	-	-
Contributions - employer	-	1,666,114	(1,666,114)
Contributions - employee	-	747	(747)
Net investment income	-	784,066	(784,066)
Benefit payments, including refunds of employee contributions	(3,502,026)	(3,502,026)	-
Administrative expense	-	(25,264)	25,264
Net Changes	(1,194,325)	(1,076,363)	(117,962)
Balance at December 31, 2017	\$ 32,284,383	\$ 13,109,268	\$ 19,175,115

There were no benefit changes during the year. The assumed investment rate of return remained 7.75%, the wage inflation assumption increased from 3.75% to 4.00% and the price inflation assumption was increased from 2.75% to 3.00%.

Sensitivity of the Net Pension Liability to the Changes in the Discount Rate

The following table presents the City's net pension liability using the current rate as compared to what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage higher than the current rate:

Sensitivity of the Net Pension Liability to the Single Discount Rate Assumption			
	1% Decrease 6.75%	Current Single Rate Assumption 7.75%	1% Increase 8.75%
City's Net Pension Liability	\$ 22,064,258	\$ 19,175,115	\$ 16,700,948

City of Fort Smith, Arkansas

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Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued LOPFI financial report.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources

For the year ended December 31, 2017, the City recognized pension expense of \$1,608,492. At December 31, 2017, the City reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 934,780
Contributions subsequent to the measurement date	<u>1,835,156</u>
Total	<u><u>\$ 2,769,936</u></u>

The amount reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$1,835,156 will be recognized as a reduction of the net pension liability for the year ending December 31, 2018. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December	
2018	\$ 303,569
2019	303,569
2020	278,996
2021	<u>48,646</u>
Total	<u><u>\$ 934,780</u></u>

Arkansas LOPFI plan administration policy, as required by state statutes, contains the following provisions: segregate all of the plan's retired participants and fund future benefit payments at 100%; remove these retirees as City obligations while the City realizes the remaining, net unfunded obligation on the segregated retirees; amortize these funded, accrued liabilities over a closed period of 40 years that began September 20, 1990; if the length of the financing period for unfunded liabilities causes closed plan assets to temporarily dip below zero, Arkansas LOPFI would loan the shortages until the financing period is complete as, at that time, Arkansas LOPFI will have been fully reimbursed including investment credits.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2017

(d) Police Relief and Pension Plan ("PRPF") (the Old Police Plan)

Plan Description

The Police Relief and Pension Plan ("PRPF") is an agent multiple-employer defined benefit pension plans for employees of the Police Department who were hired prior to January 1, 1983. The Old Plans were established in accordance with Arkansas statutes and were closed, by state law, to new employees effective January 1, 1983. On September 20, 1990, the City entered into an agreement with the Arkansas Local Police and Fire (LOPFI) Retirement System whereby LOPFI assumed responsibility for administration and a portion of the obligation of the Old Police Plan pursuant to Act 364 of 1981, as amended, and Act 655 of 1983 of the General Assembly of the State of Arkansas. Per the Agreement between the City and LOPFI, the City will contribute an actuarially determined rate sufficient to support the current plan benefit levels and fund the Old Police Plan's net pension obligation over a 30-year open amortization period. The Old Police Plan's benefit structure remains unchanged under the administration by LOPFI. The assets of the Old Police Plan are included in the pooled assets of the LOPFI system and a financial report that includes disclosures about the elements of the basic financial statements is available on the LOPFI's website at www.lopfi-prb.com.

Benefits

The PRPF provides retirement benefits for policemen who have completed 20 years of service. Disability benefits are available to policemen who become permanently disabled, unless the disability is the direct result of gainful employment performed outside the police department. The PRPF also provides benefits for surviving spouses and dependent children of deceased policemen. No participants' benefits vest until normal retirement age. At normal requirement age, participants may elect to continue working and enter the Deferred Retirement Option Plan for up to 5 years. All firemen hired after January 1, 1983, participate in the Arkansas Local Police and Fire Retirement System created by Act 364 of 1981 and detailed later in this footnote. Therefore, the Firemen's Fund is effectively closed to new members.

Pension benefit provisions and all other requirements, including vesting, are established by state statute. Participants in the Old Plans became eligible for membership as of the first date of employment. Members of the Old Plans who retire with 20 years of credited service are entitled to a retirement benefit payable monthly for life equal to one-half of the participant's annual salary. Employees become vested after 20 years of service. Members with more than 25 years of service credit may be entitled to a maximum of 100% of their highest annual salary.

At the December 31, 2016 valuation and measurement date, the following were covered by the benefit terms:

Retirees and beneficiaries	88
	<hr/>
Total	88
	<hr/> <hr/>

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2017

Contributions

Arkansas state statutes require yearly contributions at a level percentage of covered payroll sufficient to cover the costs of benefit commitments made to participants for their service rendered in that year and, over a reasonable period of time, to fully cover the unfunded costs of benefit commitments for services previously rendered. The City is required to contribute the actuarially required normal costs and amortized costs of the unfunded actuarial accrued liability. In addition, active employees are required to make contributions equal to 6% of their gross salary to the Old Police Plan. The contributions for the 2017 plan year were based upon the December 31, 2016, actuarial report. Contributions by the City to the Plan for the year ended December 31, 2017 were \$1,069,269.

Net Pension Liability

The City's net pension liability of \$18,634,616 as of December 31, 2017 was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016.

Actuarial Assumptions

The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement for the Old Police Plan.

Valuation date	December 31, 2016
Cost method	Entry age
Asset valuation method	Smooth market over a period of 5 years
Amortization method	Level percentage
Amortization period	24 years closed
Assumptions:	
Inflation rate - price	3.00 percent (2.75 percent in prior year)
Wage inflation	4.00 percent (3.75 percent in prior year)
Investment rate of return	7.75 percent (7.75 percent in prior year)
Projected salary increases	4.25 to 18.75 percent, including inflation (4.25 to 18.75 percent, including inflation, in prior year)

Mortality rates for retirees, beneficiaries, and DROP members were based on the gender distinct RP-2000 Combined Mortality Table, projected to 2017 and set forward two years for males. For disabled members, the mortality rates are the rates applicable to non-disabled lives set forward 10 years.

Actuarial assumptions used in the December 31, 2016 valuation were based on the results of actuarial experience studies. The experience study in PRPF was for the period January 1, 2008 through December 31, 2011, first used in the December 31, 2012 valuation. Assumptions are reviewed annually. No additional changes were made for the 2016 valuation.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2017

Long-term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return. The rates were built on a target allocation for all pension funds; the target for an individual fund will vary within the guidelines of Arkansas law and regulation. The long-term expected rates of return are shown in the table below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Fixed Income	30%	2.97%
International Fixed Income	6%	1.50%
Domestic Equity	33%	5.88%
Foreign Equity	7%	6.25%
Index	11%	6.73%
Alternative Investments	10%	6.13%
Cash	3%	-0.40%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of retired and DROP members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2017

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at January 1, 2017	\$ 26,485,463	\$ 8,242,229	\$ 18,243,234
Changes for the year:			
Interest	1,962,715	-	1,962,715
Differences between expected and actual experience	385,696	-	385,696
Assumption changes	-	-	-
Contributions - employer	-	1,509,135	(1,509,135)
Contributions - employee	-	-	-
Net investment income	-	463,067	(463,067)
Benefit payments, including refunds of employee contributions	(2,320,229)	(2,320,229)	-
Administrative expense	-	(15,173)	15,173
Net Changes	28,182	(363,200)	391,382
Balance at December 31, 2017	\$ 26,513,645	\$ 7,879,029	\$ 18,634,616

There were no benefit changes during the year. The assumed investment rate of return remained 7.75%, the wage inflation assumption increased from 3.75% to 4.00% and the price inflation assumption was increased from 2.75% to 3.00%.

Sensitivity of the Net Pension Liability to the Changes in the Discount Rate

The following table presents the City's net pension liability using the current rate as compared to what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage higher than the current rate:

Sensitivity of the Net Pension Liability to the Single Discount Rate Assumption			
	1% Decrease 6.75%	Current Single Rate Assumption 7.75%	1% Increase 8.75%
City's Net Pension Liability	\$ 20,933,848	\$ 18,634,616	\$ 16,382,551

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued LOPFI financial report.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2017, the City recognized pension expense of \$1,933,188.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2017

At December 31, 2017, the City reported deferred outflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 544,259
Contributions subsequent to the measurement date	<u>1,069,269</u>
Total	<u><u>\$ 1,613,528</u></u>

The amount reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$1,069,269 will be recognized as a reduction of the net pension liability for the year ending December 31, 2018. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December</u>	
2018	\$ 176,359
2019	176,359
2020	162,803
2021	<u>28,738</u>
Total	<u><u>\$ 544,259</u></u>

Arkansas LOPFI plan administration policy, as required by state statutes, contains the following provisions: segregate all of the plan's retired participants and fund future benefit payments at 100%; remove these retirees as City obligations while the City realizes the remaining, net unfunded obligation on the segregated retirees; amortize these funded, accrued liabilities over a closed period of 40 years that began September 20, 1990; if the length of the financing period for unfunded liabilities causes closed plan assets to temporarily dip below zero, Arkansas LOPFI would loan the shortages until the financing period is complete as, at that time, Arkansas LOPFI will have been fully reimbursed including investment credits.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2017

(e) Arkansas Local Police and Fire Retirement System (the New Plans)

Plan Description

The Arkansas Local Police and Fire Retirement System (LOPFI) is a statewide cost-sharing multiple-employer defined benefit pension plan administered by the LOPFI Board of Trustees. LOPFI provides retirement, disability and survivor benefits to police and fire employees of political subdivisions of the State of Arkansas. LOPFI was created by Act 364 of the 1981 General Assembly. Employees hired after January 1, 1983, whose political subdivision had a retirement system in effect at July 1, 1981, are eligible to participate in the plan. LOPFI issues a publicly available report, which may be obtained by writing to LOPFI, 620 West 3rd Street, Little Rock, Arkansas 72201, or by calling (501) 682-1745.

Benefits Provided

LOPFI provides for a retirement benefit paid to the Member on a monthly basis. The monthly benefit is based on a formula provided by law for the Member's lifetime. The Member has several options in calculating the benefit, which is normally the result of these factors: age of retirement, retirement multiplier, amount of the credit services (years and months), and final average pay (FAP). Each option available to the member provides for a different calculation based on these factors.

Contributions

Contributions to LOPFI are made by both the members and the employers. Member contribution rates are established by the LOPFI Board of Trustees. The employer contributions are actuarially determined on an annual basis. The City contributes 36.97% of covered employee salaries' to the new plan for firefighters and 31.86% of covered employee salaries' to the new plan for police officers. Employees contributed \$1,319,662 to the contributory plan for the year ended December 31, 2017. City contributions to the new plans for the year ended December 31, 2017, were \$2,477,774 and were equal to 100% of the required contributions for each year.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2017, the City reported a liability of \$24,639,054 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the ratio of the City's actual contributions to the Plan during the measurement period to the total employer contributions to the Plan of the group for the measurement period. At December 31, 2016, the City's proportion was 4.3186% which is a decrease 0.5842% from the City's proportion of 4.9028% at December 31, 2015.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2017

For the year ended, December 31, 2017, the City recognized pension expense of \$4,438,722. At December 31, 2017, the City reported deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 858,347	\$ 5,796
Changes of assumptions	1,313,082	-
Net difference between projected and actual earnings on pension plan investments	3,912,473	-
Changes in proportion	83,668	2,042,358
Contributions subsequent to the measurement date	2,904,425	-
Total	<u>\$ 9,071,995</u>	<u>\$ 2,048,154</u>

The amount reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$2,477,774 will be recognized as a reduction of the net pension liability for the year ended December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Plan will be recognized in pension expense as follows:

Year Ending December	
2018	\$ 1,411,935
2019	1,412,420
2020	1,267,813
2021	<u>27,248</u>
Total	<u>\$ 4,119,416</u>

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2017

Actuarial Assumptions

The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age normal
Price Inflation	2.75 percent (2.75 percent in prior year)
Wage Inflation	3.75 percent (3.75 percent in prior year)
Salary increases	4.25 to 18.75 percent, including inflation (4.25 to 18.75 percent, including inflation, in prior year)
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation (7.75 percent, including inflation, in prior year)

Mortality rates were based on the RP-2000 Combined Mortality Table for Males and Females, as appropriate, with adjustments for mortality improvements based on a scale AA.

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an actuarial study for the period January 1, 2016 to December 31, 2016. As a result of the 2016 actuarial study, the expectation of life after disability was adjusted in the December 31, 2016 actuarial evaluation to more closely reflect actual experience.

Long-term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return. The rates were built on a target allocation for all pension funds; the target for an individual fund will vary within the guidelines of Arkansas law and regulation. The long-term expected rates of return are shown in the table below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Fixed Income	30%	2.97%
International Fixed Income	6%	1.50%
Domestic Equity	33%	5.88%
Foreign Equity	7%	6.25%
Index	11%	6.73%
Alternative Investments	10%	6.13%
Cash	3%	-0.40%
Total	100%	

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2017

Discount Rate

In the December 31, 2016 actuarial valuation, a single discount rate of 7.75% (7.75% in prior year) was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.75%. The projection of cash flows, based on the assumptions made, found that the pension plan's net position was available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to the Changes in the Discount Rate

The following table presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

Sensitivity of the Net Pension Liability to the Single Discount Rate Assumption			
	1% Decrease 6.75%	Current Single Rate Assumption 7.75%	1% Increase 8.75%
City's proportionate share of the net pension liability	\$ 38,581,834	\$ 24,639,054	\$ 13,217,278

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued LOPFI financial report.

Note 8: Other Postemployment Benefits (OPEB)

Plan Description

The City of Fort Smith sponsors and administers an informal single-employer defined benefit healthcare plan (City of Fort Smith Other Postemployment Benefit Plan) that provides coverage for medical, dental and vision benefits. Arkansas statute provides that any municipal city official or employee vested in any of the City's retirement plans with 20 years of service and attains 55 years of age may continue to participate in the City's healthcare plan after retirement. In addition, members employed at least 5 years with age plus service exceeding 70 at retirement are eligible for benefits. The State of Arkansas has the authority to establish and amend the requirements of this statute. The City does not issue stand-alone financial statements of the plan but all required information is presented in this report.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2017

Contributions: The contribution requirements of plan members are established by City Board of Directors and may be amended as needed. Plan members pay the entire cost of monthly insurance premiums at the same rate charged to active employees and receive a benefit from the blended premium rate from all of the employees participating in the City's health insurance plans. Employees are required to elect the coverage at the time of termination. The City is not required to make contributions to the plan on behalf of the retirees. The plan has 933 active participants and 38 retirees and beneficiaries receiving benefits who pay monthly premiums between \$394 for single coverage and \$950 for family coverage. Administrative costs of the plan are financed through investment earnings and employer contributions.

Summary of Significant Accounting Policies

Basis of Accounting: The financial statements of the plan are presented as a trust fund in the City's Comprehensive Annual Financial Report (CAFR) and are prepared on the accrual basis of accounting. Employer contributions, if made, are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments: Fund investments are reported at fair value. The City's investment policies are defined in *Note 1* of the financial statements.

Plan Membership

Plan membership as of December 31, 2017 is as follows:

Active members	933
Inactive members receiving benefits	38
Inactive members not yet receiving benefits	0
	<hr/>
	971
	<hr/>

OPEB Plan (Under GASB Statement No 45)

Funded Status and Funding Progress

Annual OPEB Cost and Net OPEB Obligation: The City's annual other postemployment benefit (OPEB) expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2017

Annual required contribution (ARC)	\$ 3,179,265
Adjustment to ARC	(1,868,311)
Interest on net OPEB obligation	<u>1,403,980</u>
Annual OPEB cost	2,714,934
Total annual employer contribution	<u>183,109</u>
Increase in net OPEB obligation	2,531,825
Net OPEB obligation - beginning of year	<u>29,557,464</u>
Net OPEB obligation - end of year	<u><u>\$ 32,089,289</u></u>

The net OPEB obligation is recorded in the government-wide statement of net position as non-current liabilities due in more than one year for governmental activities at \$20,601,323 and for business-type activities at \$11,487,966. Furthermore, the obligation for business-type activities is reflected on the statement of fund net position for proprietary funds as non-current liabilities for the Water and Sewer Fund (\$8,246,948) and for the Sanitation Fund (\$3,241,018).

The components of the annual required contribution (ARC) calculation reflecting a 30 year amortization period is as follows:

Normal cost	\$ 1,460,575
Amortization cost	1,574,523
Interest adjustment	<u>144,167</u>
Annual required contribution	<u><u>\$ 3,179,265</u></u>

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2017, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.75% investment rate of return based upon funding the plan in the future, a 2.5% inflation rate, and an annual healthcare cost trend rate of 7.5% for 2017 and then reduced by decrements of 0.5% annually to an ultimate rate of 4.5% after seven years. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at December 31, 2017, was twenty-one years.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2017

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017, 2016, and 2015 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2017	\$ 2,714,934	6.74%	\$ 32,089,289
12/31/2016	3,592,975	5.72%	29,557,464
12/31/2015	3,902,856	4.29%	26,171,032

Funded Status and Funding Progress: As of January 1, 2017, the most recent actuarial valuation date, the plan was 5.4% funded. The actuarial accrued liability for benefits was \$27,571,242, and the actuarial value of assets was \$1,484,573, resulting in an unfunded actuarial accrued liability (UAAL) of \$26,092,812. The covered payroll (annual payroll of active employees covered by the plan) was \$43,253,613, and the ratio of the UAAL to the covered payroll was 65.8%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

OPEB Plan (Under GASB Statement No 74)

The City's Other Postemployment Benefit Plan is supported by employer contributions only when it has made a formal commitment to provide such contributions. Using the entry age normal method, contributions are determined such that contributions will fund the projected benefits over a closed 30-year funding period.

The net OPEB liability is measured as the total OPEB liability, less the amount of the plan's fiduciary net position. A single discount rate of 4.0% was used to measure the total OPEB liability as of December 31, 2017. The long-term rate of return on OPEB plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return.

The plan's policy in regard to the allocation of invested assets is established by the City. The current asset allocation policy at the end of 2017 is as follows:

50% fixed income investments
38% money market funds/CDs, and
12% equity investments

The long-term rate of return also included an expected 2.5% inflation for 2017. The single discount rate of 4.0% was based on a blend of the long-term expected rate of return and the bond discount rate at December 31, 2017.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2017

Actuarial assumptions: The total OPEB liability was determined by an actuarial valuation as of December 31, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial cost method:	Entry Age Normal
Amortization method:	Level Dollar over 30 years from January 1, 2017
Remaining amortization period:	5 years
Asset valuation method:	Market value
Inflation:	2.5 percent per year
Health care cost trend rates:	7.5 percent initial, decreasing 0.5 percent per year to an ultimate rate of 4.5 percent
Single discount rate:	4.0 percent at 12/31/17
Retirement age:	Expected retirement ages of general employees are based on information provided by the Arkansas Public Employees Retirement System (APERS)
Mortality:	RP-2014 Mortality Table with Improvement Scale MP-2016

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2016 – December 31, 2016.

Based on the stated assumptions and projection of cash flows, the OPEB plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The components of the net OPEB liability of the City at December 31, was as follows:

Total OPEB liability	\$ 29,935,757
Less: plan fiduciary net position	<u>1,484,573</u>
Net OPEB liability	<u><u>\$ 28,451,184</u></u>

Plan fiduciary net position as a % of total	
OPEB liability	5.0%

The schedule of investment return for the City's OPEB Plan is as follows for the year ended December 31, 2017:

Annual money-weighted rate of return,	
net of investment expense	0.42%

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2017

Below is a table providing the sensitivity of the net OPEB liability to changes in the discount rate as of December 31, 2017. In particular, the table presents the plan's net OPEB liability if it were calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher than the assumed rate:

	Sensitivity of the Net OPEB Liability to the Single Discount Rate Assumption		
	1% Decrease 3.00%	Current Single Rate Assumption 4.00%	1% Increase 5.00%
Net OPEB liability	<u>\$ 31,657,431</u>	<u>\$ 28,451,184</u>	<u>\$ 25,563,198</u>

Below is a table providing the sensitivity of the net OPEB liability to changes in the health care trend rate as of December 31, 2017. In particular, the table presents the plan's net OPEB liability if it were calculated using a single health care trend rate that is one-percentage-point lower or one-percentage-point higher than the assumed rate:

	Sensitivity of the Net OPEB Liability to the Health Care Trend Rate		
	1% Decrease 6.50%	Current Single Rate Assumption 7.50%	1% Increase 8.50%
Net OPEB liability	<u>\$ 24,668,071</u>	<u>\$ 28,451,184</u>	<u>\$ 32,949,982</u>

The City's policy in regard to the allocation in invested assets is established and may be amended by the City's Board of Directors, which is the Plan's Board, by a majority vote of its members. It is the policy of the Board to pursue an investment strategy that reduces risk.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2017

The fair value of individual investments that represented 5% or more of the Plan's net position restricted for postemployment benefits other than pensions was as follows:

December 31, 2017	
Investment	Fair Value
Federated Treasury Obligations Fd 68	\$ 335,973
ISHARES AGENCY BOND ETF	180,947
ISHARES 1-3 YEAR TREASURY BOND ETF	159,060
ISHARES 3-7 YEAR TREASURY BOND ETF	132,544
ISHARES 7-10 YEAR TREASURY BOND ETF	110,849
ISHARES CORE U.S. AGGREGATE BOND ETF	153,062
ISHARES SHORT TREASURY BOND ETF	84,775
ISHARES TIPS BOND ETF	106,094
BMO HARRIS BANK NA DEATH PUT FDIC CERT	150,015
SALLIE MAE BANK/SALT LKE DEATH PUT CERT	75,005

Note 9: Commitments and Contingencies

Litigation

In the course of business, a number of claims and lawsuits arise from individuals seeking compensation for personal injury and/or property damage resulting from accidents occurring in the City. In addition, the City has been named as a defendant in a number of lawsuits relating to personnel and contractual matters. Management does not believe that the outcome of these claims will have a material adverse effect on the City's financial position. The City appropriates funds necessary to meet settlements and awards. The City accrues a liability when it is incurred and when the contingency is probable and reasonably estimable. At December 31, 2017, the City has accrued a liability in the amount of \$82,500.

Contingencies

The City has received federal and state financial awards in the form of grants and entitlements that are subject to review and audit by the grantor agencies. Such audits could result in requests for reimbursement by the grantor agency for expenditures disallowed under terms and conditions specified in the grant agreements. In the opinion of City management, such disallowances, if any, will not be significant.

In 2015, the City entered into a Consent Decree with the United States Environmental Protection Agency (EPA), the United States Department of Justice (DOJ), and the Arkansas Department of Environmental Quality (ADEQ). The Consent Decree addresses the City's compliance with the Federal Clean Water Act involving dry and wet weather overflows from the sanitary sewer system and ongoing maintenance. There have been no penalties associated with the Consent Decree assessed in 2017.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2017

Note 10: Individual Fund Disclosures

Interfund receivables and payables as of December 31, 2017 are as follows:

Fund	Receivables	Payables
Governmental Funds:		
General Fund	\$ 61,264	\$ -
Special Revenue Funds	-	61,128
Proprietary Funds:		
Internal Service Funds	-	136
Total	<u>\$ 61,264</u>	<u>\$ 61,264</u>

Interfund transfers in (out) for the year ended December 31, 2017, is as follows:

Fund	Transfers	
	In	Out
Primary Government -		
Governmental Funds:		
Major funds:		
General Fund	\$ 276,002	\$ 1,867,000
Special revenue -		
Street Maintenance Fund	-	92,000
Sales Tax Fund	828,244	-
Debt service -		
Sales and Use Tax Bond Fund	-	-
Non-major funds:		
Special revenue	<u>1,777,000</u>	<u>-</u>
Total governmental funds	<u>2,881,246</u>	<u>1,959,000</u>
Proprietary Funds:		
Water and Sewer Fund	-	921,246
Sanitation Fund	90,000	91,000
Internal Service Funds	<u>-</u>	<u>-</u>
Total proprietary funds	<u>90,000</u>	<u>1,012,246</u>
Total primary government	<u>\$ 2,971,246</u>	<u>\$ 2,971,246</u>

The transfers out from the General Fund include \$1,777,000 to the Convention Center Fund.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2017

Note 11: Landfill Closure and Postclosure Care Costs

In October 1991, the EPA issued rules and regulations which require the City to place a final cover on its Municipal Solid Waste Landfill (MSWLF) when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for a period of 30 years following closure of the site.

In 1994, the City adopted GASB Statement 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*. This statement requires that the City recognize a portion of the closure and postclosure care costs referred to above as an operating expense in each fiscal year based on landfill capacity used as of each fiscal year-end, even though such costs will be paid only near or after the date that the landfill stops accepting waste.

The City's permitted landfill capacity is 60,222,935 cubic yards. The life of the landfill is projected at 125 years. The landfill was opened on October 9, 1993. The City's reported landfill closure and postclosure care liability at December 31, 2017, is \$7,930,886. The remaining estimated closure and postclosure care costs of approximately \$37.2 million will be recognized as the remaining capacity is filled. The percentage of landfill capacity used to date was approximately 20.1% at December 31, 2017. These amounts are based upon annual engineering estimates of what it would cost to perform all closure and postclosure costs, based on the City's approved closure plan, through December 31, 2017. Actual costs may be significantly higher due to inflation, changes in technology, or changes in regulations by the Arkansas Department of Environmental Quality.

The City is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care costs. The amount of financial assurance required by the state as of December 31, 2017, is \$8,070,194. In order to comply with this requirement, BancorpSouth issued an irrevocable standby letter of credit that is pledged to the Arkansas Department of Environmental Quality in the amount of \$8,000,000 at December 31, 2017. The City has also pledged a certificate of deposit investment as collateral for the letter of credit. The City will increase the value of the letter of credit and certificate of deposit held as collateral to meet the required level of financial assurance during 2017.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2017

Note 12: New Applicable GASB Standards

GASB Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

This statement improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditures. This statement also identifies methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to the actuarial present value and attribute the present value to periods of employee service. It replaces the requirements of GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and GASB 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. This statement, which will result in more robust disclosures and notes is effective for periods beginning after June 15, 2017. The City has not yet determined the potential impact, if any, that this statement could have on its financial statements.

GASB Statement No. 83 – Certain Asset Retirement Obligations

This statement addresses issues in accounting and financial reporting for certain asset retirement obligations (AROs), including establishing criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This statement is effective for periods beginning after June 15, 2018, with earlier application encouraged. The City has not yet determined the potential impact, if any, that this statement could have on its financial statements.

GASB Statement No. 84 – Fiduciary Activities

This statement provides for greater consistency and comparability by establishing specific criteria for identifying activities that should be reported as fiduciary activities and clarifying whether and how business-type activities should report their fiduciary activities. This statement is effective for periods beginning after December 15, 2018, with earlier application encouraged. The City has not yet determined the potential impact, if any, that this statement could have on its financial statements.

GASB Statement No. 85 – Omnibus 2017

This statement addresses practice issues that have been identified during implementation and application of certain GASB standards and addresses a variety of topics, including issues related to blending component units, goodwill, fair value measurement and postemployment benefits. This statement is effective for periods beginning after June 15, 2017, with earlier application encouraged. The City has not yet determined the potential impact, if any, that this statement could have on its financial statements.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2017

GASB Statement No. 86 – Certain Debt Extinguishment Issues

This statement improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement is effective for periods beginning after June 15, 2017, with earlier application encouraged. The City has not yet determined the potential impact, if any, that this statement could have on its financial statements.

GASB Statement No. 87 – Leases

This statement increases the usefulness of government's financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources and outflows of resources based on the payment provision of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This statement is effective for reporting periods beginning after December 15, 2019, with earlier application encouraged.

GASB Statement No. 88 – Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements

This statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established and requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This statement is effective for reporting periods beginning after June 15, 2018, with earlier application encouraged.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2017

Note 13: Condensed Financial Statements-Discretely Presented Component Units

The following presents condensed financial statements for each of the four discretely presented component units:

Statement of Net Position
December 31, 2017

	Governmental			Business-Type		
	Advertising and Promotion	Public Library	Total	Parking Authority	Airport Commission	Total
Assets						
Current assets	\$ 498,237	\$ 1,144,205	\$ 1,642,442	\$ 506,956	\$ 4,236,634	\$ 4,743,590
Sales taxes receivable from the City	-	161,805	161,805	-	-	-
Capital assets, net of accumulated depreciation, as applicable	-	788,983	788,983	1,359,160	36,108,488	37,467,648
Noncurrent assets	-	-	-	-	853,311	853,311
Total assets	498,237	2,094,993	2,593,230	1,866,116	41,198,433	43,064,549
Deferred Outflows of Resources						
Deferred outflow related to pension	-	489,636	489,636	-	-	-
Deferred amount on refunding	-	-	-	-	88,323	88,323
Total deferred outflows of resources	-	489,636	489,636	-	88,323	88,323
Liabilities						
Current liabilities	40,672	70,366	111,038	3,347	560,577	563,924
Noncurrent liabilities	-	1,718,177	1,718,177	661	1,910,000	1,910,661
Total liabilities	40,672	1,788,543	1,829,215	4,008	2,470,577	2,474,585
Deferred Inflows of Resources						
Deferred inflow related to pension	-	153,267	153,267	-	-	-
Total deferred inflows of resources	-	153,267	153,267	-	-	-
Net Position						
Net investment in capital assets	-	788,983	788,983	1,359,160	34,086,811	35,445,971
Restricted	457,565	-	457,565	-	441,042	441,042
Unrestricted	-	(146,164)	(146,164)	502,948	4,288,326	4,791,274
Total net position	\$ 457,565	\$ 642,819	\$ 1,100,384	\$ 1,862,108	\$ 38,816,179	\$ 40,678,287

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2017

Statement of Activities
For the Year Ended December 31, 2017

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Governmental Activities		
				Advertising and Promotion	Public Library	Total
Advertising/Promotion	\$ 752,829	\$ -	\$ 3,350	\$ (749,479)	\$ -	\$ (749,479)
Public Library	3,043,864	190,177	144,663	-	(2,709,024)	(2,709,024)
Total	<u>\$ 3,796,693</u>	<u>\$ 190,177</u>	<u>\$ 148,013</u>	<u>(749,479)</u>	<u>(2,709,024)</u>	<u>(3,458,503)</u>
General revenues						
Property taxes				-	1,422,872	1,422,872
Sales taxes				-	1,001,511	1,001,511
Hospitality hotel/motel taxes				853,764	-	853,764
Unrestricted investments earnings				1,569	949	2,518
Other				-	188,631	188,631
Total general revenues				<u>855,333</u>	<u>2,613,963</u>	<u>3,469,296</u>
Change in net position				<u>105,854</u>	<u>(95,061)</u>	<u>10,793</u>
Net position, beginning, as previously stated				<u>351,711</u>	<u>737,880</u>	<u>1,089,591</u>
Net position, ending				<u>\$ 457,565</u>	<u>\$ 642,819</u>	<u>\$ 1,100,384</u>

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Fees, Fines, and Charges for Services	Capital Grants and Contributions	Business-Type Activities		
				Parking Authority	Airport Commission	Total
Parking Authority	\$ 188,586	\$ 152,718	\$ -	\$ (35,868)	\$ -	\$ (35,868)
Airport Commission	5,019,180	2,890,004	1,813,577	-	(315,599)	(315,599)
Total	<u>\$ 5,207,766</u>	<u>\$ 3,042,722</u>	<u>\$ 1,813,577</u>	<u>(35,868)</u>	<u>(315,599)</u>	<u>(351,467)</u>
General revenues						
Unrestricted investment earnings				<u>2,280</u>	<u>24,497</u>	<u>26,777</u>
Total general revenues				<u>2,280</u>	<u>24,497</u>	<u>26,777</u>
Change in net position				<u>(33,588)</u>	<u>(291,102)</u>	<u>(324,690)</u>
Net position, beginning				<u>1,895,696</u>	<u>39,107,281</u>	<u>41,002,977</u>
Net position, ending				<u>\$ 1,862,108</u>	<u>\$ 38,816,179</u>	<u>\$ 40,678,287</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2017

Note 14: Prior Period Adjustment

In prior years, the City's Sanitation Fund calculated the depreciation of the landfill asset by estimating the capacity used for each cell compared to the total capacity of all cells in the landfill resulting in the understatement of depreciation expense. During 2017, the City retroactively corrected the calculation of depreciation expense to calculate the depreciation of each cell of the landfill asset by comparing the estimated capacity used for each cell to the total capacity of the individual cell in accordance with GASB 18.

The City recorded a prior period adjustment in 2017 for a correction of an error in the calculation of the landfill cells' depreciation. Beginning net position of the City was restated for the prior period adjustment as follows:

Business-type Activities			
	As Originally Reported	As Restated	Effect of Change
Statement of Net Position			
Assets			
Capital Assets, net			
Depreciable	\$ 481,021,132	\$ 471,873,269	\$ (9,147,863)
Total Assets	<u>\$ 638,007,812</u>	<u>\$ 628,859,949</u>	<u>\$ (9,147,863)</u>
Net Position			
Net investment in capital assets	\$ 397,064,645	\$ 387,916,782	\$ (9,147,863)
Total Net Position	<u>\$ 433,218,071</u>	<u>\$ 424,070,208</u>	<u>\$ (9,147,863)</u>
Proprietary Funds			
Sanitation Fund			
	As Originally Reported	As Restated	Effect of Change
Statement of Fund Net Position			
Assets			
Accumulated Depreciation - Capital Assets	\$ (30,960,755)	\$ (40,108,618)	\$ (9,147,863)
Total Assets	<u>\$ 43,135,696</u>	<u>\$ 33,987,833</u>	<u>\$ (9,147,863)</u>
Net Position			
Net investment in capital assets	\$ 23,721,936	\$ 14,574,073	\$ (9,147,863)
Total Net Position	<u>\$ 33,529,660</u>	<u>\$ 24,381,797</u>	<u>\$ (9,147,863)</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2017

The effect of the correction on the change in net position for the year ended December 31, 2016, was to increase depreciation expense by \$289,324, thereby reducing change in net position by the same amount.

REQUIRED SUPPLEMENTARY INFORMATION

City of Fort Smith, Arkansas
Required Supplementary Information
Agent Multiple-Employer Plan
Schedule of the City's Net Pension
Liability and Related Ratios – FRPF (the Old Fire Plan)

Fiscal Year Ended December 31,	2017	2016	2015
Total Pension Liability			
Service Cost	\$ -	\$ -	\$ -
Interest	2,458,896	2,531,326	2,601,031
Benefit Changes	-	-	-
Difference between expected and actual experience	(151,195)	116,585	385,846
Assumption Changes	-	680,689	-
Benefit Payments, including refunds of employee contributions	(3,502,026)	(2,982,945)	(4,733,419)
Net Change in Total Pension Liability	(1,194,325)	345,655	(1,746,542)
Total Pension Liability - Beginning	33,478,708	33,133,053	34,879,595
Total Pension Liability - Ending (a)	\$ 32,284,383	\$ 33,478,708	\$ 33,133,053
Plan Fiduciary Net Position			
Contributions - Employer*	\$ 1,666,114	\$ 1,866,654	\$ 1,741,331
Contributions - Member	747	4,708	5,118
Net Investment Income	784,066	26,779	1,131,513
Benefit Payments, including refunds of employee contributions	(3,502,026)	(2,982,945)	(4,733,419)
Administrative Expense	(25,264)	(33,915)	(26,887)
Deferred Retirement Option Distributions	-	-	-
Reconciliation Adjustment	-	-	-
Net Change in Plan Fiduciary Net Position	(1,076,363)	(1,118,719)	(1,882,344)
Plan Fiduciary Net Position - Beginning	14,185,631	15,304,350	17,186,694
Plan Fiduciary Net Position - Ending (b)	\$ 13,109,268	\$ 14,185,631	\$ 15,304,350
City's Net Pension Liability (a) - (b)	\$ 19,175,115	\$ 19,293,077	\$ 17,828,703
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	40.61%	42.37%	46.19%
Covered Payroll	\$ 86,657	\$ 156,943	\$ -
City's Net Pension Liability as a Percentage of Covered Payroll	22127.60%	12293.05%	N/A

* Includes assets reported as State Insurance Tax Turnback Money

Information in this schedule has been determined as of the measurement date (December 31 of the year prior to the most recent fiscal year-end) of the City's net pension liability.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled under the provisions of GASB 68, the City will only present available information.

(1): Assumption changes for 2017 include an increase in the price inflation from 3.75 to 3.00 percent; an increase in wage inflation from 3.75 to 4.00 percent; an increase in the salary increases from 4.25 to 18.75 percent to 4.50 to 19.00 percent. There was no change in investment rate of return 7.75 percent in 2017.

City of Fort Smith, Arkansas
Required Supplementary Information
Agent Multiple-Employer Plan
Schedule of the City's Pension
Contributions – FRPF (the Old Fire Plan)

FY Ended December 31,	Actuarially Determined Contribution (ADC)	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2017	\$ 1,835,156	\$ 1,835,156	\$ -	\$ 74,302	2469.86%
2016	\$ 1,418,363	\$ 1,418,363	\$ -	\$ 84,626	1676.04%
2015	\$ 1,609,084	\$ 1,609,084	\$ -	\$ 156,943	1025.27%

Key Assumptions for ADC:

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Individual Entry-Age Normal
Amortization Method	Closed Amortization Period based on projected future payroll
Remaining Amortization Period	21 years beginning January 1, 2018
Asset Valuation Method	5-Year smoothed market; 20% corridor (for funding purposes)
Price Inflation	3.00%
Salary Increases	4%, which is the portion of the individual pay increase assumptions attributable to wage inflation
Investment Rate of Return	8.00%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period 2008-2011.
Mortality	RP-2000 Combined Mortality Table, projected to 2017 and set forward two years for men. For disabled lives, the mortality rates are the rates applicable to non-disabled lives set forward 10 years.

Other Information:

Notes	There were no benefit changes during the year.
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Information in this schedule has been determined as of the City's most recent fiscal year-end.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled under the provisions of GASB 68, the City will only present available information.

City of Fort Smith, Arkansas
Required Supplementary Information
Agent Multiple-Employer Plan
Schedule of the City's Net Pension
Liability and Related Ratios – PRPF (the Old Police Plan)

Fiscal Year Ended December 31,	2017	2016	2015
Total Pension Liability			
Service Cost	\$ -	\$ -	\$ -
Interest	1,962,715	1,968,295	1,944,283
Benefit Changes	-	-	-
Difference Between Actual & Expected Experience	385,696	652,213	614,152
Assumption Changes	-	396,928	-
Benefit Payments, including refunds of employee contributions	(2,320,229)	(2,271,315)	(2,245,252)
Net Change in Total Pension Liability	28,182	746,121	313,183
Total Pension Liability - Beginning	26,485,463	25,739,342	25,426,159
Total Pension Liability - Ending (a)	\$ 26,513,645	\$ 26,485,463	\$ 25,739,342
Plan Fiduciary Net Position			
Contributions - Employer*	\$ 1,509,135	\$ 1,596,703	\$ 1,554,845
Contributions - Member	-	-	490
Net Investment Income	463,067	15,584	624,174
Benefit Payments, including refunds of employee contributions	(2,320,229)	(2,271,315)	(2,245,252)
Administrative Expense	(15,173)	(19,925)	(14,832)
Deferred Retirement Option Distributions	-	-	-
Reconciliation Adjustment	-	-	-
Net Change in Plan Fiduciary Net Position	(363,200)	(678,953)	(80,575)
Plan Fiduciary Net Position - Beginning	8,242,229	8,921,182	9,001,757
Plan Fiduciary Net Position - Ending (b)	\$ 7,879,029	\$ 8,242,229	\$ 8,921,182
City's Net Pension Liability (a) - (b)	\$ 18,634,616	\$ 18,243,234	\$ 16,818,160
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	29.72%	31.12%	34.66%
Covered Payroll	\$ -	\$ -	\$ -
City's Net Pension Liability as a Percentage of Covered Payroll	N/A	N/A	N/A

* Includes assets reported as State Insurance Tax Turnback Money

Information in this schedule has been determined as of the measurement date (December 31 of the year prior to the most recent fiscal year-end) of the City's net pension liability.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled under the provisions of GASB 68, the City will only present available information.

(1): Assumption changes for 2017 include an increase in the price inflation from 3.75 to 3.00 percent; an increase in wage inflation from 3.75 to 4.00 percent; an increase in the salary increases from 4.25 to 18.75 percent to 4.50 to 19.00 percent. There was no change in investment rate of return 7.75 percent in 2017.

City of Fort Smith, Arkansas
Required Supplementary Information
Agent Multiple-Employer Plan
Schedule of the City's Pension
Contributions – PRPF (the Old Police Plan)

FY Ended December 31,	Actuarially Determined Contribution (ADC)	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2017	\$ 1,069,269	\$ 1,069,269	\$ -	\$ -	N/A
2016	\$ 1,256,207	\$ 1,256,207	\$ -	\$ -	N/A
2015	\$ 1,372,907	\$ 1,372,907	\$ -	\$ -	N/A

Key Assumptions for ADC:

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Individual Entry-Age Normal
Amortization Method	Closed Amortization Period based on projected future payroll
Remaining Amortization Period	21 years beginning January 1, 2018
Asset Valuation Method	5-Year smoothed market; 20% corridor (for funding purposes)
Price Inflation	3.00%
Salary Increases	4.00%, which is the portion of the individual pay increase
Investment Rate of Return	8.00%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period 2008-2011.
Mortality	RP-2000 Combined Mortality Table, projected to 2017 and set forward two years for men. For disabled lives, the mortality rates are the rates applicable to non-disabled lives set forward 10 years.

Other Information:

Notes	There were no benefit changes during the year.
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Information in this schedule has been determined as of the City's most recent fiscal year-end.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled under the provisions of GASB 68, the City will only present available information.

City of Fort Smith, Arkansas
Required Supplementary Information
Schedule of the City's Proportionate Share of the Net
Pension Liability – LOPFI (the New Plans)

Plan Fiscal Year Ended December 31,	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability	4.3186%	4.9028%	4.9183%
City's proportionate share of the net pension liability	\$ 24,639,054	\$ 25,717,186	\$ 17,804,470
City's covered payroll	\$ 15,585,218	\$ 16,226,346	\$ 17,203,371
City's proportionate share of the net pension liability as a percentage of its covered payroll	158.09%	158.49%	103.49%
Plan fiduciary net position as a percentage of the total pension liability	72.87%	72.92%	79.14%

Information in this schedule has been determined as of the measurement date (December 31 of the year prior to the most recent fiscal year-end) of the City's net pension liability.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled under the provisions of GASB 68, the City will only present available information.

City of Fort Smith, Arkansas
Required Supplementary Information
Schedule of City's Contributions – LOPFI (the New Plans)

Plan Fiscal Year Ended December 31,	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially required contribution	\$ 2,904,425	\$ 2,674,571	\$ 3,043,184
Contributions in relation to the actuarially required contribution	<u>(2,904,425)</u>	<u>(2,674,571)</u>	<u>(3,043,184)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$15,585,218	\$16,226,346	\$ 17,203,371
Contributions as a percentage of covered payroll	18.64%	16.48%	17.69%

Information in this schedule has been determined as of the City's most recent fiscal year-end.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled under the provisions of GASB 68, the City will only present available information.

City of Fort Smith, Arkansas
Required Supplementary Information
Schedule of the City's Proportionate Share of the Net
Pension Liability – APERS

Plan Fiscal Year Ended June 30,	2017	2016	2015
City's proportion of the net pension liability	0.0048%	0.0048%	0.0049%
City's proportionate share of the net pension liability	\$ 125,123	\$ 115,180	\$ 90,125
City's covered payroll	\$ 87,267	\$ 92,221	\$ 87,267
City's proportionate share of the net pension liability as a percentage of its covered payroll	143.38%	124.90%	103.27%
Plan fiduciary net position as a percentage of the total pension liability	75.65%	75.50%	80.39%

Information in this schedule has been determined as of the measurement date (June 30 of the year prior to the most recent fiscal year-end) of the City's net pension liability.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled under the provisions of GASB 68, the City will only present available information.

City of Fort Smith, Arkansas
Required Supplementary Information
Schedule of City's Contributions – APERS

Plan Fiscal Year Ended June,	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially required contribution	\$ 12,872	\$ 12,654	\$ 12,815
Contributions in relation to the actuarially required contribution	<u>(12,872)</u>	<u>(12,654)</u>	<u>(12,815)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 87,267	\$ 92,221	\$ 87,267
Contributions as a percentage of covered payroll	14.75%	13.72%	14.68%

Information in this schedule has been determined as of the City's most recent fiscal year-end.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled under the provisions of GASB 68, the City will only present available information.

City of Fort Smith, Arkansas

Required Supplementary Information

Fort Smith Public Library - APERS

Schedule of the Library's Proportionate Share of the Net Pension Liability - APERS

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Organization's proportion of the net pension liability(asset)	0.00664893%	0.00728465%	0.07559378%	0.07345205%
Organization's proportionate share of the net pension liability	\$ 1,718,177	\$ 1,742,013	\$ 1,392,236	\$ 1,042,220
Organization's covered payroll	\$ 1,304,997	\$ 1,319,906	\$ 1,345,315	\$ 1,298,642
Organization's proportionate share of the net pension liability as a percentage of its covered payroll	131.66%	131.98%	103.49%	80.25%
Plan fiduciary net position as a percentage of the total pension liability	75.65%	75.50%	80.39%	84.15%

Schedule of Library Contributions Last Fiscal Year

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially required contribution	\$ 189,225	\$ 191,379	\$ 198,569	\$ 193,238
Contributions in relation to the actuarially required contribution	<u>(173,760)</u>	<u>(191,379)</u>	<u>(198,569)</u>	<u>(193,238)</u>
Contribution deficiency (excess)	<u>\$ 15,465</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Organization's covered payroll	\$ 1,304,997	\$ 1,319,906	\$ 1,345,315	\$ 1,298,642
Contributions as a percentage of covered payroll	14.50%	14.50%	14.76%	14.88%

Notes to Schedules:

Only the four fiscal years are presented because 10-year data is not yet available.

City of Fort Smith, Arkansas
Required Supplementary Information
Schedule of Funding Progress – OPEB Plan

	(1)	(2)	(3)	(4)	(5)	(6)
				Total Funded Excess (Unfunded) Actuarial Liability	Annual Covered Payroll	Ratio of Funded Excess (Unfunded) Actuarial Liability to Annual Covered Payroll (4)/(5)
Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Funded Ratio (1)/(2)	(1) - (2)		
Other Postemployment Benefit Plan (OPEB)						
2017	\$ 1,484,573	\$ 29,935,757	5.0%	\$ (28,451,184)	\$ 43,253,613	-65.8%
2016	1,478,430	33,265,204	4.4%	(31,786,774)	43,174,967	-73.6%
2015	1,475,415	34,532,722	4.3%	(33,057,307)	44,066,409	-75.0%
2014	1,483,531	35,992,306	4.1%	(34,508,775)	42,608,739	-81.0%
2013	1,459,584	27,401,372	5.3%	(25,941,788)	42,584,483	-60.9%
Employer Contributions - OPEB						
2017	\$ 183,109					
2016	205,649					
2015	167,607					
2014	179,257					
2013	140,382					

City of Fort Smith, Arkansas
Required Supplementary Information
Schedule of Changes in the City's Net OPEB Liability and Related Ratios
(Under GASB Statement 74) – OPEB Plan
Year Ended December 31, 2017

Total OPEB Liability	
Service Cost	\$ 1,735,578
Interest	1,094,848
Differences Between Expected and Actual Experience	(81,729)
Benefit Payments	<u>(450,111)</u>
Net Change in Total OPEB Liability	2,298,586
Total OPEB Liability - Beginning	<u>27,637,171</u>
Total OPEB Liability - Ending (a)	<u><u>\$ 29,935,757</u></u>
Plan Fiduciary Net Position	
Net Investment Income	\$ 17,340
Administrative Expense	<u>(11,197)</u>
Net change in Fiduciary Net Position	6,143
Plan Fiduciary Net Position - Beginning	<u>1,478,430</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 1,484,573</u></u>
City's Net OPEB Liability - Ending (a) - (b)	<u><u>\$ 28,451,184</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	4.96%
Covered Payroll	\$ 43,253,613
City's Net OPEB Liability as a Percentage of Covered Payroll	65.78%

OPEB schedules under GASB Statement 74 included in the required supplementary information are intended to show information for ten years. GASB Statement 74 was implemented in 2017; therefore, only one year is shown. Additional years' information will be added as it becomes available.

City of Fort Smith, Arkansas
Required Supplementary Information
Schedule of City Contributions
(Under GASB Statement 74) – OPEB Plan
Year Ended December 31, 2017

Actuarially required contribution	\$ 3,179,265
Contributions in relation to the actuarially required contribution	<u>-</u>
Contribution deficiency (excess)	<u><u>\$ 3,179,265</u></u>
City's covered payroll	\$ 43,253,613
Contributions as a percentage of covered payroll	0.00%

Notes to Schedule:

Valuation Date: Actuarially determined contributions are calculated as of December 31 after the valuation date

Methods and assumptions used to determine contribution rates:

Actuarial cost method:	Entry Age Normal
Amortization method:	Level Dollar over 30 years from January 1, 2017
Remaining amortization period:	5 years
Asset valuation method:	Market value
Inflation:	2.5 percent per year
Health care cost trend rates:	7.5 percent initial, decreasing 0.5 percent per year to an ultimate rate of 4.5 percent
Single discount rate:	4.0 percent at 12/31/17
Retirement age:	Expected retirement ages of general employees are based on information provided by the Arkansas Public Employees Retirement System (APERS)
Mortality:	RP-2014 Mortality Table with Improvement Scale MP-2016

OPEB schedules under GASB Statement 74 included in the required supplementary information are intended to show information for ten years. GASB Statement 74 was implemented in 2017; therefore, only one year is shown. Additional years' information will be added as it becomes available.

City of Fort Smith, Arkansas
Required Supplementary Information
Schedule of Investment Returns
(Under GASB Statement 74) – OPEB Plan
Year Ended December 31, 2017

Annual money-weighted rate of return, net of investment expense	0.42%
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OPEB schedules under GASB Statement 74 included in the required supplementary information are intended to show information for ten years. GASB Statement 74 was implemented in 2017; therefore, only one year is shown. Additional years' information will be added as it becomes available.

City of Fort Smith, Arkansas
Required Supplementary Information
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual – General Fund
For the Year Ended December 31, 2017

	Budgeted Amounts		Actual	Adjustments	Actual	Variance with
	Original	Final	GAAP	Budget	Budget	Final Budget
			Basis	Basis	Basis	
Revenues						
Taxes	\$ 6,850,000	\$ 7,087,488	\$ 7,631,784	\$ -	\$ 7,631,784	\$ 544,296
Sales taxes	16,695,000	16,951,491	21,992,890	-	21,992,890	5,041,399
Licenses and permits	1,707,000	1,621,066	1,602,533	-	1,602,533	(18,533)
Utility franchise fees	5,750,000	6,100,299	6,304,008	-	6,304,008	203,709
Intergovernmental	4,780,000	3,854,170	4,366,994	-	4,366,994	512,824
Fines and forfeitures	2,300,000	2,341,324	1,974,709	-	1,974,709	(366,615)
Fees for services	513,000	569,295	590,549	-	590,549	21,254
Interest	23,000	60,476	171,638	-	171,638	111,162
Contributions	-	205,809	231,796	-	231,796	25,987
Miscellaneous	103,163	248,123	424,026	-	424,026	175,903
Total revenues	38,721,163	39,039,541	45,290,927	-	45,290,927	6,251,386
Expenditures						
Current:						
General government						
Administration	3,614,306	1,721,385	1,615,132	5,950	1,621,082	100,303
Legal	2,002,450	1,968,888	2,105,055	-	2,105,055	(136,167)
Finance	2,219,888	1,131,747	1,055,777	5,160	1,060,937	70,810
Public safety						
Police	15,009,984	14,382,580	13,960,409	-	13,960,409	422,171
Fire	12,735,663	13,735,686	12,002,766	937,465	12,940,231	795,455
Community services						
Health and social services	149,740	142,920	130,156	-	130,156	12,764
Parks and recreation	2,579,265	2,248,108	2,210,541	45,000	2,255,541	(7,433)
Transit	2,209,770	2,103,383	2,116,300	10,000	2,126,300	(22,917)
Other	1,528,621	1,738,940	1,518,380	-	1,518,380	220,560
Capital outlay	3,515,880	5,740,103	4,583,779	2,379,452	6,963,231	(1,223,128)
Total expenditures	45,565,567	44,913,740	41,298,295	3,383,027	44,681,322	232,418
Excess (deficiency) of revenues over (under) expenditures	(6,844,404)	(5,874,199)	3,992,632	(3,383,027)	609,605	6,483,804
Other Financing Sources (Uses):						
Transfers in	2,818,000	2,518,296	276,002	-	276,002	(2,242,294)
Transfers out	(867,000)	(867,000)	(1,867,000)	-	(1,867,000)	(1,000,000)
Total other financing sources and uses	1,951,000	1,651,296	(1,590,998)	-	(1,590,998)	(3,242,294)
Net change in fund balances	(4,893,404)	(4,222,903)	2,401,634	(3,383,027)	(981,393)	3,241,510
Fund Balances, January 1	5,764,038	12,398,312	14,893,534	-	14,893,534	-
Fund Balances, December 31	\$ 870,634	\$ 8,175,409	\$ 17,295,168	\$ (3,383,027)	\$ 13,912,141	\$ 3,241,510

City of Fort Smith, Arkansas
Required Supplementary Information
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual – Street Maintenance Fund
For the Year Ended December 31, 2017

	Budgeted Amounts		Actual	Adjustments	Actual	Variance with
	Original	Final	GAAP	Budget	Budget	Final Budget
			Basis	Basis	Basis	
Revenues						
Taxes	\$ 2,075,000	\$ 2,128,402	\$ 2,235,463	\$ -	\$ 2,235,463	\$ 107,061
Licenses and permits	175,000	223,100	227,067	-	227,067	3,967
Intergovernmental	5,700,000	6,007,593	5,933,311	-	5,933,311	(74,282)
Interest	4,200	11,486	9,042	-	9,042	(2,444)
Miscellaneous	3,000	59,801	90,853	-	90,853	31,052
Total revenues	7,957,200	8,430,382	8,495,736	-	8,495,736	65,354
Expenditures						
Current:						
General government						
Administration	207,684	186,017	183,496	500	183,996	2,021
Legal	89,000	121,250	130,480	-	130,480	(9,230)
Finance	442,728	537,468	402,022	7,660	409,682	127,786
Public works						
Operations	539,200	511,359	518,535	-	518,535	(7,176)
Streets	3,598,678	3,563,294	3,430,311	-	3,430,311	132,983
Traffic control	1,986,178	2,042,235	2,034,367	-	2,034,367	7,868
Community services						
Parks and recreation	199,976	192,016	175,177	-	175,177	16,839
Other	574,725	734,000	-	-	-	734,000
Capital Outlay	335,000	715,823	844,335	-	844,335	(128,512)
Total expenditures	7,973,169	8,603,462	7,718,723	8,160	7,726,883	876,579
Excess (deficiency) of revenues over (under) expenditures	(15,969)	(173,080)	777,013	(8,160)	768,853	941,933
Other Financing Uses:						
Transfers out	(91,000)	(91,000)	(92,000)	-	(92,000)	(1,000)
Total Other Financing Uses	(91,000)	(91,000)	(92,000)	-	(92,000)	(1,000)
Net Change in Fund Balances	(106,969)	(264,080)	685,013	(8,160)	676,853	940,933
Fund Balances, January 1	2,103,272	2,152,783	2,564,557	-	2,564,557	-
Fund Balances, December 31	\$ 1,996,303	\$ 1,888,703	\$ 3,249,570	\$ (8,160)	\$ 3,241,410	\$ 940,933

City of Fort Smith, Arkansas
Notes to Required Supplementary Information
December 31, 2017

Budgets and Budget Accounting

By December 1 of each year, the City Administrator is required to submit to the Board of Directors ("Board") a proposed budget for the fiscal year beginning on the following January 1. The operating budget includes proposed expenditures and the means of financing them. Public hearings are conducted prior to adoption of the budget to allow citizen input. The state statute governing adoption of annual budgets requires the Board to approve the budget prior to February 1. For practical purposes, the Board usually adopts the budget in December.

Annual budgets are legally adopted for the General Fund and the Street Maintenance Fund, a special revenue fund.

The City Administrator is authorized to transfer budgeted amounts within departments; however, the Board must approve any revisions that alter the total expenditures of any department. General fund appropriations increased by \$879,877 for 2017. The supplemental appropriations (expenditures and transfers out) were \$850,000 for an additional LOPFI contribution and approximately \$30,000 for insurance adjustments. During 2017, the Street Maintenance fund appropriations increased by \$7,442 due to insurance adjustments.

For budgetary purposes, unencumbered appropriations lapse at year-end.

The budgets for the General Fund and the Street Maintenance Fund are prepared on a basis that differs from GAAP. The difference between budget and GAAP basis is that encumbrances are recorded as the equivalent of expenditures (budget) as opposed to an assignment of fund balance (GAAP). Accordingly, encumbrances have been reflected in the budget and actual schedules as budget adjustments to provide a more meaningful comparison. Budget and actual schedules are presented at the departmental level that is the legal level of budgetary control.

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**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND
SCHEDULES SECTION**

City of Fort Smith, Arkansas
Nonmajor Governmental Funds
For the Year Ended December 31, 2017

Special Revenue Funds:

Community Development Block Grant (CDBG) - To account for the operations of projects utilizing CDBG funds. Such revenues are restricted to expenditures for specified projects by the Department of Housing and Urban Development.

Tilles Park- To account for donations received from the Tilles family estate. The money received is restricted for upgrading and maintaining Tilles Park.

HOME Investment Partnership Act- To account for federal funds administered by the Community Housing Development Organizations (CHDO) and other subrecipients to provide assistance for affordable housing.

Special Grants- To account for federal, state, and local grants received by the City. Current grants include: Department of Justice grants for personnel and equipment, Arkansas historic preservation grants, and a local grant from Sebastian County for drug law enforcement projects. These funds are restricted to expenditures for approved projects of the various agencies.

LOPFI Contribution- To account for the funding of contributions made to the Police and Fire Relief and Pension Plans administered by Arkansas LOPFI.

Economic Development- To account for State grants provided as pass-through funding to local entities for infrastructure improvements.

Convention Center- To account for operations of the convention center. The rental revenue generated by the center and a subsidy from the General Fund are accounted for in this fund. The City has an agreement with the Advertising & Promotion Commission (A & P) whereby the A & P manage the center.

Capital Project Fund:

Sales and Use Tax Construction Fund- To account for the proceeds of the Sales and Use Tax Refunding and Construction Bonds and the projects funded thereby.

City of Fort Smith, Arkansas

Combining Balance Sheet – Nonmajor Governmental Funds

December 31, 2017

	Special Revenue							Capital Projects	Total Nonmajor Governmental Funds
	Community Development Block Grant	Tilles Park	HOME Investment Partnership Act	Special Grants	LOPFI Contribution	Economic Development	Convention Center	Sales & Use Tax Construction	
Assets									
Cash	\$ 11,486	\$ -	\$ 1,624	\$ 3,054	\$ 805,802	\$ -	\$ 162,416	\$ -	\$ 984,382
Investments	-	25,527	-	180,166	5,764,698	-	527,900	3,907,485	10,405,776
Receivables, net of allowance for uncollectibles									
Taxes	-	-	-	-	2,938,067	-	-	-	2,938,067
Accounts	-	4	-	30	972	-	94,650	-	95,656
Interest	-	-	-	-	-	-	89	-	89
Due from other governments	111,238	-	61,517	20,672	-	163,833	-	-	357,260
Prepaid items	-	-	-	-	-	-	-	-	-
Deposits	-	-	-	-	-	-	-	504,041	504,041
Total assets	\$ 122,724	\$ 25,531	\$ 63,141	\$ 203,922	\$ 9,509,539	\$ 163,833	\$ 785,055	\$ 4,411,526	\$ 15,285,271
Liabilities, Deferred Inflows of Resources, and Fund Balances									
Liabilities:									
Accounts payable and accrued liabilities	\$ 81,520	\$ -	\$ 48,694	\$ -	\$ -	\$ -	\$ 68,109	\$ 2,149,174	\$ 2,347,497
Retainage payable	-	-	-	-	-	-	-	6,142	6,142
Due to other funds	31,158	-	12,823	17,147	-	-	-	-	61,128
Unearned revenues	2,384	-	1,624	85,122	-	163,833	36,751	-	289,714
Other	2,323	-	-	-	-	-	369	-	2,692
Total liabilities	117,385	-	63,141	102,269	-	163,833	105,229	2,155,316	2,707,173
Deferred Inflows of Resources									
Unavailable property taxes	-	-	-	-	2,797,452	-	-	-	2,797,452
Total deferred inflows of resources	-	-	-	-	2,797,452	-	-	-	2,797,452
Fund Balances:									
Nonspendable	-	-	-	-	-	-	-	504,041	504,041
Restricted for:									
Construction projects	-	-	-	101,653	-	-	-	-	101,653
Parks & recreation	-	25,531	-	-	-	-	-	-	25,531
Housing and rehabilitation	5,339	-	-	-	-	-	-	-	5,339
Police & fire retirement contributions	-	-	-	-	6,712,087	-	-	-	6,712,087
Assigned to:									
Convention center	-	-	-	-	-	-	679,826	1,752,169	2,431,995
Unassigned	-	-	-	-	-	-	-	-	-
Total Fund Balances	5,339	25,531	-	101,653	6,712,087	-	679,826	2,256,210	9,780,646
Total liabilities, deferred inflows of resources, and fund balances	\$ 122,724	\$ 25,531	\$ 63,141	\$ 203,922	\$ 9,509,539	\$ 163,833	\$ 785,055	\$ 4,411,526	\$ 15,285,271

City of Fort Smith, Arkansas
Combining Statement of Revenues, Expenditures and Changes in Fund Balance –
Nonmajor Governmental Funds
For the Year Ended December 31, 2017

	Special Revenue							Projects	
	HOME								Total
	Community		Investment					Sales	Nonmajor
	Development		Partnership	Special	LOPFI	Economic	Convention	& Use Tax	Governmental
	Block Grant	Tilles Park	Act	Grants	Contribution	Development	Center	Construction	Funds
Revenues									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 2,982,094	\$ -	\$ -	\$ -	\$ 2,982,094
Intergovernmental	759,620	-	1,117,654	182,177	1,715,394	-	-	-	3,774,845
Fines and forfeitures	-	-	-	-	111,654	-	-	-	111,654
Fees for services	-	-	-	-	-	-	861,607	-	861,607
Interest	-	115	-	-	22,057	-	2,343	36,599	61,114
Contributions	-	-	-	-	1,748,336	-	-	-	1,748,336
Miscellaneous	-	-	-	-	2,088	-	438	68,179	70,705
Total revenues	759,620	115	1,117,654	182,177	6,581,623	-	864,388	104,778	9,610,355
Expenditures									
Current:									
Public safety									
Police	-	-	-	170,752	2,822,633	-	-	-	2,993,385
Fire	-	-	-	-	3,888,185	-	-	-	3,888,185
Community services									
Parks and Recreation	-	-	-	11,425	-	-	-	-	11,425
Convention Center	-	-	-	-	-	-	1,434,991	-	1,434,991
Transit	-	-	-	-	-	-	-	-	-
Housing and Rehabilitation	751,233	-	1,117,654	-	-	-	-	-	1,868,887
Capital Outlay	-	-	-	-	-	-	24,568	4,221,434	4,246,002
Total expenditures	751,233	-	1,117,654	182,177	6,710,818	-	1,459,559	4,221,434	14,442,875
Excess (deficiency) of revenues over (under) expenditures	8,387	115	-	-	(129,195)	-	(595,171)	(4,116,656)	(4,832,520)
Other Financing Sources (Uses)									
Transfers in	-	-	-	-	1,000,000	-	777,000	-	1,777,000
Total Other Financing Sources and Uses	-	-	-	-	1,000,000	-	777,000	-	1,777,000
Net Change in Fund Balances	8,387	115	-	-	870,805	-	181,829	(4,116,656)	(3,055,520)
Fund Balances, January 1	(3,048)	25,416	-	101,653	5,841,282	-	497,997	6,372,866	12,836,166
Fund Balances, December 31	\$ 5,339	\$ 25,531	\$ -	\$ 101,653	\$ 6,712,087	\$ -	\$ 679,826	\$ 2,256,210	\$ 9,780,646

City of Fort Smith, Arkansas
Internal Service Funds
For the Fiscal Year Ended December 31, 2017

Working Capital- To account for the accumulation and allocation of costs associated with fuel and duplicating services.

Employee Insurance- To account for monthly premiums contributed by the City and its employees for health insurance coverage and to provide for payment of life insurance premiums. The plan is self-insured with a third party administrator acting as paying agent for claims. Premiums are accumulated in this fund for the payment of employee insurance claims.

Workers' Compensation- To account for amounts contributed for workers' compensation. Workers' compensation contributions are accumulated in this fund for the payment of workers' compensation claims.

City of Fort Smith, Arkansas
Combining Statement of Net Position
Internal Service Funds
December 31, 2017

	Working Capital	Employee Insurance	Workers' Compensation	Total
Assets				
Current Assets				
Cash	\$ 151,889	\$ 289,785	\$ 523,020	\$ 964,694
Investments	-	4,065,877	574,592	4,640,469
Receivables, net of allowance for uncollectibles				
Accounts	-	40,533	1,246	41,779
Interest	-	770	139	909
Inventory	36,525	-	-	36,525
Prepaid items & deposits	-	4,117	120,433	124,550
	<u>188,414</u>	<u>4,401,082</u>	<u>1,219,430</u>	<u>5,808,926</u>
Total Current Assets				
	<u>188,414</u>	<u>4,401,082</u>	<u>1,219,430</u>	<u>5,808,926</u>
Total Assets				
	<u>188,414</u>	<u>4,401,082</u>	<u>1,219,430</u>	<u>5,808,926</u>
Liabilities				
Current Liabilities				
Accounts payable and accrued liabilities	49,006	9,385	-	58,391
Due to other funds	136	-	-	136
Claims and judgments	-	860,814	789,601	1,650,415
	<u>49,142</u>	<u>870,199</u>	<u>789,601</u>	<u>1,708,942</u>
Total Current Liabilities				
	<u>49,142</u>	<u>870,199</u>	<u>789,601</u>	<u>1,708,942</u>
Total Liabilities				
	<u>49,142</u>	<u>870,199</u>	<u>789,601</u>	<u>1,708,942</u>
Net Position				
Unrestricted	<u>139,272</u>	<u>3,530,883</u>	<u>429,829</u>	<u>4,099,984</u>
	<u>\$ 139,272</u>	<u>\$ 3,530,883</u>	<u>\$ 429,829</u>	<u>\$ 4,099,984</u>
Total Net Position				
	<u>\$ 139,272</u>	<u>\$ 3,530,883</u>	<u>\$ 429,829</u>	<u>\$ 4,099,984</u>

City of Fort Smith, Arkansas
Combining Statement of Revenues, Expenses and
Changes in Fund Net Position
Internal Service Funds
For the Year Ended December 31, 2017

	Working Capital	Employee Insurance	Workers' Compensation	Total
Operating Revenues				
Charges for services - internal	\$ 619,108	\$ 9,565,274	\$ 1,208,320	\$ 11,392,702
Charges for services - external	-	389,229	-	389,229
Total Operating Revenues	<u>619,108</u>	<u>9,954,503</u>	<u>1,208,320</u>	<u>11,781,931</u>
Operating Expenses				
Personnel services	-	-	2,352	2,352
Contractual services	-	476,462	73,506	549,968
Materials and supplies	597,543	-	-	597,543
Insurance claims and expenses	-	8,791,271	976,558	9,767,829
Total Operating Expenses	<u>597,543</u>	<u>9,267,733</u>	<u>1,052,416</u>	<u>10,917,692</u>
Operating Income (Loss)	<u>21,565</u>	<u>686,770</u>	<u>155,904</u>	<u>864,239</u>
Nonoperating Revenues				
Investment earnings	-	15,462	5,420	20,882
Total Nonoperating Revenues	<u>-</u>	<u>15,462</u>	<u>5,420</u>	<u>20,882</u>
Income before transfers	21,565	702,232	161,324	885,121
Change in Net Position	21,565	702,232	161,324	885,121
Total net position, beginning	<u>117,707</u>	<u>2,828,651</u>	<u>268,505</u>	<u>3,214,863</u>
Total net position, ending	<u>\$ 139,272</u>	<u>\$ 3,530,883</u>	<u>\$ 429,829</u>	<u>\$ 4,099,984</u>

City of Fort Smith, Arkansas
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended December 31, 2017

	Working Capital	Employee Insurance	Workers' Compensation	Total
Cash Flows from Operating Activities:				
Cash received from service users	\$ 619,360	\$ 415,624	\$ -	\$ 1,034,984
Cash received from city and employee contributions	-	9,565,274	1,208,320	10,773,594
Cash payments for goods and services	(609,037)	-	-	(609,037)
Cash payments for premiums and other operating exp	-	(476,462)	(2,575)	(479,037)
Cash payments for claims paid	-	(8,824,756)	(976,558)	(9,801,314)
Net cash provided by (used for) operating activities	10,323	679,680	229,187	919,190
Cash Flows from Investing Activities				
Proceeds from sales and maturities of investment securities	-	695,808	919,336	1,615,144
Outlays for purchases of investment securities	-	(2,084,739)	(640,948)	(2,725,687)
Interest on investments	-	15,182	5,448	20,630
Net cash provided by (used for) investing activities	-	(1,373,749)	283,836	(1,089,913)
Net increase (decrease) in cash	10,323	(694,069)	513,023	(170,723)
Cash, January 1	141,566	983,854	9,997	1,135,417
Cash, December 31	\$ 151,889	\$ 289,785	\$ 523,020	\$ 964,694
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities				
Operating income (loss)	\$ 21,565	\$ 686,770	\$ 155,904	\$ 864,239
Change in assets and liabilities				
Accounts receivable	-	26,395	-	26,395
Due from other funds	252	-	-	252
Inventory	(16,785)	-	-	(16,785)
Prepaid items	-	12,647	(106,433)	(93,786)
Accounts payable and accrued liabilities	5,291	(50,590)	-	(45,299)
Liability for claims and judgments	-	4,458	179,716	184,174
Total adjustments	(11,242)	(7,090)	73,283	54,951
Net cash provided by (used for) operating activities	\$ 10,323	\$ 679,680	\$ 229,187	\$ 919,190

City of Fort Smith, Arkansas
Discretely Presented Component Units
For the Fiscal Year Ended December 31, 2017

Governmental Fund Types – Special Revenue Funds

Advertising and Promotion- To account for the operations of the Advertising and Promotion Commission utilizing revenues from the hotel/motel (hospitality) tax. These revenues are restricted to expenditures of the Advertising and Promotion Commission to promote the City and increase tourism.

Public Library- To account for the operations of the Fort Smith Public Library in providing library services to citizens.

Proprietary Fund Types – Enterprise Funds

Parking Authority- To account for the provision of parking facilities within the City. All services necessary to provide such services are accounted for in this fund including, but not limited to, administration, operations, maintenance, financing, and related debt service.

Airport Commission- To account for the provision of regional airport services. All activities necessary to provide such services are accounted for in this fund, including but not limited to, administration, operations, maintenance, financing, and related debt service.

City of Fort Smith, Arkansas
Combining Statement of Net Position
Governmental Component Units
December 31, 2017

	Advertising and Promotion	Public Library	Total
Assets			
Cash	\$ 20,364	\$ 693,467	\$ 713,831
Investments	422,188	301,035	723,223
Receivables, net of allowance for uncollectibles			
Taxes	52,961	-	52,961
Interest	71	-	71
Sales taxes	-	161,805	161,805
Accounts	-	99,712	99,712
Prepaid items	2,653	49,991	52,644
Capital assets			
Nondepreciable	-	427,132	427,132
Depreciable	-	361,851	361,851
	<hr/>	<hr/>	<hr/>
Total Assets	498,237	2,094,993	2,593,230
	<hr/>	<hr/>	<hr/>
Deferred outflows of resources			
Deferred outflow related to pension	-	489,636	489,636
	<hr/>	<hr/>	<hr/>
Total deferred outflows of resources	-	489,636	489,636
	<hr/>	<hr/>	<hr/>
Liabilities			
Accounts payable and accrued liabilities	40,672	70,366	111,038
Net pension liability	-	1,718,177	1,718,177
	<hr/>	<hr/>	<hr/>
Total Liabilities	40,672	1,788,543	1,829,215
	<hr/>	<hr/>	<hr/>
Deferred inflows of resources			
Deferred inflow related to pension	-	153,267	153,267
	<hr/>	<hr/>	<hr/>
Total deferred inflows of resources	-	153,267	153,267
	<hr/>	<hr/>	<hr/>
Net Position			
Net investment in capital assets	-	788,983	788,983
Restricted for:			
Tourism & promotion	457,565	-	457,565
Assigned to:			
Library	-	(146,164)	(146,164)
	<hr/>	<hr/>	<hr/>
Total Net Position	\$ 457,565	\$ 642,819	\$ 1,100,384
	<hr/>	<hr/>	<hr/>

City of Fort Smith, Arkansas
Combining Statement of Activities – Governmental Component Units
For the Year Ended December 31, 2017

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Governmental Activities		
				Advertising & Promotion	Public Library	Total
Advertising & Promotion	\$ 752,829	\$ -	\$ 3,350	\$ (749,479)	\$ -	\$ (749,479)
Public Library	3,043,864	190,177	144,663	-	(2,709,024)	(2,709,024)
Total	<u>\$ 3,796,693</u>	<u>\$ 190,177</u>	<u>\$ 148,013</u>	<u>(749,479)</u>	<u>(2,709,024)</u>	<u>(3,458,503)</u>
General revenues						
Property taxes				-	1,422,872	1,422,872
Sales taxes				-	1,001,511	1,001,511
Hospitality taxes				853,764	-	853,764
Unrestricted investment earnings				1,569	949	2,518
Other				-	188,631	188,631
Total general revenues				<u>855,333</u>	<u>2,613,963</u>	<u>3,469,296</u>
Change in net position				<u>105,854</u>	<u>(95,061)</u>	<u>10,793</u>
Net position, beginning				<u>351,711</u>	<u>737,880</u>	<u>1,089,591</u>
Net position, ending				<u>\$ 457,565</u>	<u>\$ 642,819</u>	<u>\$ 1,100,384</u>

City of Fort Smith, Arkansas
Balance Sheet – Advertising and Promotion
Governmental Component Unit
December 31, 2017

Assets:

Cash	\$ 20,364
Investments	422,188
Receivables, net of allowance for uncollectibles	
Interest	71
Taxes	52,961
Prepaid items	2,653
	<hr/>
Total Assets	\$ 498,237
	<hr/>

Liabilities and Fund Balance:

Current:

Accounts payable and accrued liabilities	\$ 40,672
	<hr/>
Total Liabilities	40,672

Fund Balance:

Restricted for:

Tourism & promotion	457,565
	<hr/>
Total Liabilities and Fund Balance	\$ 498,237
	<hr/>

City of Fort Smith, Arkansas
Statement of Revenues, Expenditures and Changes in Fund Balance
Advertising and Promotion - Governmental Component Unit
For the Year Ended December 31, 2017

Revenues	
Taxes	\$ 853,764
Interest	1,569
Contributions	<u>3,350</u>
Total revenues	<u>858,683</u>
Expenditures	
Other	<u>727,216</u>
Total Expenditures	<u>727,216</u>
Excess of revenues over expenditures	<u>131,467</u>
Other Financing Uses:	
Transfers out to primary government	<u>(25,613)</u>
Total other financing uses	<u>(25,613)</u>
Net change in fund balance	105,854
Fund Balance, January 1	<u>351,711</u>
Fund Balance, December 31	<u><u>\$ 457,565</u></u>

City of Fort Smith, Arkansas
Combining Statement of Net Position
Business-Type Component Units
December 31, 2017

	Parking Authority	Airport	Total
Assets			
Current Assets			
Cash	\$ 7,816	\$ 1,838,852	\$ 1,846,668
Investments	496,720	1,894,387	2,391,107
Receivables, net of allowance for uncollectibles			
Accounts	654	165,637	166,291
Accrued interest	85	8,783	8,868
Restricted			
Cash	-	76,761	76,761
Grants and other governments	-	133,242	133,242
Prepaid items and deposits	1,681	64,791	66,472
Inventory	-	54,181	54,181
	<u>506,956</u>	<u>4,236,634</u>	<u>4,743,590</u>
Total Current Assets			
	<u>506,956</u>	<u>4,236,634</u>	<u>4,743,590</u>
Noncurrent Assets			
Restricted			
Cash	-	347,653	347,653
Investments	-	505,658	505,658
Capital assets			
Nondepreciable	1,359,160	7,572,576	8,931,736
Depreciable	-	28,535,912	28,535,912
	<u>1,359,160</u>	<u>36,961,799</u>	<u>38,320,959</u>
Total Noncurrent Assets			
	<u>1,359,160</u>	<u>36,961,799</u>	<u>38,320,959</u>
Total Assets	<u>1,866,116</u>	<u>41,198,433</u>	<u>43,064,549</u>
Deferred Outflows of Resources			
Deferred amount on refunding	-	88,323	88,323
	<u>-</u>	<u>88,323</u>	<u>88,323</u>
Total deferred outflows of resources			
	<u>-</u>	<u>88,323</u>	<u>88,323</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	3,347	360,577	363,924
Payable from restricted assets:			
Revenue bonds payable, current	-	200,000	200,000
	<u>3,347</u>	<u>560,577</u>	<u>563,924</u>
Total Current Liabilities			
	<u>3,347</u>	<u>560,577</u>	<u>563,924</u>
Noncurrent liabilities			
Due within one year	7	-	7
Due in more than one year	654	1,910,000	1,910,654
	<u>661</u>	<u>1,910,000</u>	<u>1,910,661</u>
Total Noncurrent Liabilities			
	<u>661</u>	<u>1,910,000</u>	<u>1,910,661</u>
Total Liabilities	<u>4,008</u>	<u>2,470,577</u>	<u>2,474,585</u>
Net Position			
Net investment in capital assets	1,359,160	34,086,811	35,445,971
Restricted for bond retirement	-	382,419	382,419
Restricted for capital projects	-	58,623	58,623
Unrestricted	502,948	4,288,326	4,791,274
	<u>1,862,108</u>	<u>38,816,179</u>	<u>40,678,287</u>
Total Net Position			
	<u>\$ 1,862,108</u>	<u>\$ 38,816,179</u>	<u>\$ 40,678,287</u>

City of Fort Smith, Arkansas
Combining Statement of Activities – Business-Type Component Units
For the Year Ended December 31, 2017

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Fees, Fines, and Charges for Services	Capital Grants and Contributions	Business-Type Activities		
				Parking Authority	Airport Commission	Total
Parking Authority	\$ 188,586	\$ 152,718	\$ -	\$ (35,868)	\$ -	\$ (35,868)
Airport	5,019,180	2,890,004	1,813,577	-	(315,599)	(315,599)
Total	<u>\$ 5,207,766</u>	<u>\$ 3,042,722</u>	<u>\$ 1,813,577</u>	<u>(35,868)</u>	<u>(315,599)</u>	<u>(351,467)</u>
General revenues						
Unrestricted investment earnings				2,280	24,497	26,777
Total general revenues				2,280	24,497	26,777
Change in net position				(33,588)	(291,102)	(324,690)
Net position, beginning of year				1,895,696	39,107,281	41,002,977
Net position, ending of year				<u>\$ 1,862,108</u>	<u>\$ 38,816,179</u>	<u>\$ 40,678,287</u>

City of Fort Smith, Arkansas
Combining Statement of Cash Flows – Business-Type Component Units
For the Year Ended December 31, 2017

	Parking Authority	Airport	Total
Operating Activities			
Cash received from customers	\$ 152,814	\$ 2,871,471	\$ 3,024,285
Cash payments for goods and services	(64,440)	(1,491,546)	(1,555,986)
Cash paid to employees	(75,241)	(733,684)	(808,925)
Net cash provided by operating activities	13,133	646,241	659,374
Capital and Related Financing Activities			
Proceeds from capital grants	-	1,336,370	1,336,370
Proceeds from bond issuances	-	-	-
Passenger facility charges received	-	351,735	351,735
Acquisition and construction of capital assets	-	(1,674,285)	(1,674,285)
Principal paid on bonds	-	(109,388)	(109,388)
Interest paid on bonds	-	(195,000)	(195,000)
Net cash used for capital and related financing activities	-	(290,568)	(290,568)
Investing Activities			
Proceeds from sales and maturities of investment securities	-	1,681,414	1,681,414
Outlays for purchases of investment securities	(9,430)	(2,094,386)	(2,103,816)
Interest on investments	2,275	22,993	25,268
Net cash used for investing activities	(7,155)	(389,979)	(397,134)
Net increase (decrease) in cash and restricted cash	5,978	(34,306)	(28,328)
Cash and restricted cash, January 1	1,838	2,297,572	2,299,410
Cash and restricted cash, December 31	<u>\$ 7,816</u>	<u>\$ 2,263,266</u>	<u>\$ 2,271,082</u>
Reconciliation of cash and restricted cash at December 31 to statement of net position			
Cash	\$ 7,816	\$ 1,838,852	\$ 1,846,668
Restricted cash	-	424,414	424,414
Total	<u>\$ 7,816</u>	<u>\$ 2,263,266</u>	<u>\$ 2,271,082</u>

City of Fort Smith, Arkansas
Combining Statement of Cash Flows – Business-Type Component Units
(Continued)
For the Year Ended December 31, 2017

	Parking Authority	Airport	Total
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities			
Operating loss	\$ (35,868)	\$(2,004,028)	\$ (2,039,896)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities			
Depreciation	50,492	2,680,560	2,731,052
Miscellaneous expenses (net)	(3,398)	-	(3,398)
Change in assets and liabilities			
Accounts receivable	(96)	(18,533)	(18,629)
Inventory	-	(4,155)	(4,155)
Prepaid items	-	(19)	(19)
Accounts payable and accrued liabilities	1,795	(7,584)	(5,789)
Liabilities for accrued vacation and sick leave	208	-	208
	<u>49,001</u>	<u>2,650,269</u>	<u>2,699,270</u>
Total adjustments			
	<u>\$ 13,133</u>	<u>\$ 646,241</u>	<u>\$ 659,374</u>
Net cash provided by operating activities			

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STATISTICAL SECTION

City of Fort Smith, Arkansas

Statistical Section

This section of the City of Fort Smith comprehensive annual financial report (CAFR) presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information reflects about the City's overall financial health.

Contents	Page
Financial Trends (Tables 1-5)	
These schedules contain trend information to assist the reader in understanding how the City's financial performance and well-being have changed over time	169
Revenue Capacity (Tables 6-11)	
These schedules contain information to help the reader assess the City's most significant revenue sources, local sales taxes and property taxes	175
Debt Capacity (Tables 12-15)	
These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future	181
Demographic and Economic Information (Tables 16-17)	
These schedules offer demographic and economic indicators to assist the reader in understanding the environment within which the City's financial activities take place	185
Operating Information (Tables 18-20)	
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to services the City provides and the activities it performs	187
Continuing Disclosure Requirement Information (Tables 21-22)	
These schedules provide information required to be disseminated for investors of City debt. By including this data, the CAFR may be used as the document that provides all debt covenant required reports and information	190

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

Table 1

City of Fort Smith, Arkansas
Net Position by Component
Last Ten Years
(Accrual Basis of Accounting)
(Unaudited)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Governmental activities										
Net investment in capital assets	\$ 293,634,375	\$ 294,746,494	\$ 305,663,999	\$ 323,022,637	\$ 323,907,222	\$ 315,027,429	\$ 301,383,411	\$ 301,292,326	\$ 310,422,734	\$ 326,142,910
Restricted	46,981,658	24,205,366	23,050,850	39,016,328	45,995,375	41,087,435	46,649,301	50,358,284	49,252,066	48,938,954
Unrestricted	27,130,241	38,763,651	34,297,504	15,010,176	11,588,210	11,619,202	8,929,780	(41,489,044)	(38,495,788)	(28,509,210)
Total governmental activities net position	<u>\$ 367,746,274</u>	<u>\$ 357,715,511</u>	<u>\$ 363,012,353</u>	<u>\$ 377,049,141</u>	<u>\$ 381,490,807</u>	<u>\$ 367,734,066</u>	<u>\$ 356,962,492</u>	<u>\$ 310,161,566</u>	<u>\$ 321,179,012</u>	<u>\$ 346,572,654</u>
Business-Type activities										
Net investment in capital assets	\$ 249,818,159	\$ 293,549,646	\$ 314,941,959	\$ 324,215,779	\$ 329,000,477	\$ 359,247,688	\$ 378,186,724	\$ 350,202,002	\$ 397,064,645	\$ 385,564,986
Restricted	27,385,513	24,102,177	24,385,436	18,608,798	18,173,298	18,623,298	19,073,298	20,677,094	23,582,119	23,581,225
Unrestricted (deficit)	(4,385,785)	(3,057,942)	(7,596,655)	2,270,311	8,023,382	5,289,216	649,154	34,468,082	12,571,307	18,695,478
Total business-type activities net position	<u>\$ 272,817,887</u>	<u>\$ 314,593,881</u>	<u>\$ 331,730,740</u>	<u>\$ 345,094,888</u>	<u>\$ 355,197,157</u>	<u>\$ 383,160,202</u>	<u>\$ 397,909,176</u>	<u>\$ 405,347,178</u>	<u>\$ 433,218,071</u>	<u>\$ 427,841,689</u>
Primary government										
Net investment in capital assets	\$ 543,452,534	\$ 588,296,140	\$ 620,605,958	\$ 647,238,416	\$ 652,907,699	\$ 674,275,117	\$ 679,570,135	\$ 651,494,328	\$ 707,487,379	\$ 711,707,896
Restricted	74,367,171	48,307,543	47,436,286	57,625,126	64,168,673	59,710,733	65,722,599	71,035,378	72,834,185	65,808,092
Unrestricted (deficit)	22,744,456	35,705,709	26,700,849	17,280,487	19,611,592	16,908,418	9,578,934	(7,020,962)	(25,924,481)	(9,813,732)
Total primary government net position	<u>\$ 640,564,161</u>	<u>\$ 672,309,392</u>	<u>\$ 694,743,093</u>	<u>\$ 722,144,029</u>	<u>\$ 736,687,964</u>	<u>\$ 750,894,268</u>	<u>\$ 754,871,668</u>	<u>\$ 715,508,744</u>	<u>\$ 754,397,083</u>	<u>\$ 767,702,256</u>

Table 2

City of Fort Smith, Arkansas
Changes in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)
(Unaudited)

	Fiscal									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Expenses										
Governmental Activities:										
General government	\$ 10,384,215	\$ 8,783,548	\$ 9,464,539	\$ 9,874,051	\$ 9,373,912	\$ 10,566,809	\$ 11,782,229	\$ 10,540,138	\$ 9,334,980	\$ 9,813,976
Public safety	28,634,055	31,836,140	32,350,902	34,009,318	37,263,101	40,463,203	37,468,682	40,059,753	39,229,896	37,685,158
Public works	12,091,319	12,169,873	13,226,363	14,541,350	14,541,430	16,688,875	16,828,138	16,228,119	15,992,699	16,485,834
Community services	9,637,947	13,438,158	12,165,578	10,732,048	11,633,976	11,431,562	17,875,559	11,598,167	10,593,837	10,813,088
Interest on long-term debt	4,109,187	3,917,534	3,838,008	2,933,735	4,099,571	4,958,960	4,948,763	4,702,341	4,390,585	4,528,084
Total governmental activities expenses	64,856,723	70,145,253	71,045,390	72,090,502	76,911,990	84,109,410	88,903,371	83,128,518	79,541,996	79,326,140
Business-Type Activities:										
Water and Sewer	41,745,466	34,198,511	37,974,129	38,875,863	41,283,645	42,203,035	42,807,102	43,775,895	49,436,840	56,118,174
Sanitation	11,465,629	11,403,090	11,670,602	11,287,956	12,361,032	12,185,883	13,298,931	12,160,733	11,623,625	14,930,172
Total business-type activities expenses	53,211,095	45,601,601	49,644,731	50,163,819	53,644,677	54,388,918	56,106,033	55,936,628	61,060,465	71,048,345
Total primary government expenses	\$ 118,067,818	\$ 115,746,854	\$ 120,690,121	\$ 122,254,321	\$ 130,556,667	\$ 138,498,328	\$ 145,009,404	\$ 139,065,146	\$ 140,602,461	\$ 150,374,485
Program Revenues										
Governmental Activities:										
Charges for services										
General government	\$ 4,267,976	\$ 3,644,887	\$ 3,874,758	\$ 3,935,526	\$ 3,864,179	\$ 4,011,708	\$ 3,590,637	\$ 3,984,533	\$ 4,138,125	\$ 3,697,496
Public safety	266,085	245,863	312,543	325,298	358,888	1,430,302	183,031	166,741	174,925	206,292
Public works	-	1,200	4,605	9,535	261,792	421,635	266,627	254,686	335,684	346,439
Community services	1,125,845	1,003,750	1,153,674	994,444	1,099,960	1,657,307	1,210,185	1,199,131	1,170,521	1,322,074
Operating grants and contributions	7,928,553	12,754,491	13,142,881	12,269,135	10,982,501	12,914,448	13,925,772	15,087,846	13,482,510	13,072,923
Capital grants and contributions	8,260,531	1,763,263	1,357,800	1,796,754	3,394,792	3,388,287	3,197,429	3,540,688	12,349,015	3,343,621
Total governmental activities program revenue	21,848,990	19,413,454	19,846,261	19,330,692	19,962,112	23,823,687	22,373,681	24,233,625	31,650,780	21,988,845
Business-Type Activities:										
Charges for services										
Water and sewer	36,391,791	35,652,828	38,509,851	40,818,042	41,049,517	37,805,650	35,918,255	43,606,954	53,271,406	54,902,198
Sanitation	14,095,412	12,560,096	13,246,801	12,337,186	12,640,422	15,068,421	13,291,198	13,756,356	14,791,432	14,757,545
Capital grants and contributions	2,731,780	3,683,324	512,378	638,698	1,245,672	1,968,216	-	-	-	-
Total business-type activities program revenue	53,218,983	51,896,248	52,269,030	53,793,926	54,935,611	54,842,287	49,209,453	57,363,310	68,062,838	69,659,743
Total primary government program revenues	\$ 75,067,973	\$ 71,309,702	\$ 72,115,291	\$ 73,124,618	\$ 74,897,723	\$ 78,665,974	\$ 71,583,134	\$ 81,596,935	\$ 99,713,618	\$ 91,648,588
Net (expense) revenue										
Governmental activities	\$ (43,007,733)	\$ (50,731,799)	\$ (51,199,129)	\$ (52,759,810)	\$ (56,949,878)	\$ (60,285,723)	\$ (60,285,723)	\$ (66,529,690)	\$ (58,894,893)	\$ (57,337,295)
Business-Type activities	7,888	6,294,647	2,624,299	3,630,107	1,290,934	453,369	453,369	(6,896,580)	1,426,682	(1,388,602)
Total primary government net expense	\$ (42,999,845)	\$ (44,437,152)	\$ (48,574,830)	\$ (49,129,703)	\$ (55,658,944)	\$ (59,832,354)	\$ (59,832,354)	\$ (73,426,270)	\$ (57,468,211)	\$ (58,725,897)

Table 2 (Continued)

City of Fort Smith, Arkansas
Changes in Net Position (Continued)
Last Ten Fiscal Years
(Accrual Basis of Accounting)
(Unaudited)

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes										
Property taxes	\$ 9,360,659	\$ 12,267,731	\$ 10,623,101	\$ 13,143,979	\$ 10,927,877	\$ 11,514,707	\$ 11,447,651	\$ 11,715,689	\$ 12,255,857	\$ 12,674,326
Sales taxes	57,837,124	52,601,763	52,091,471	53,838,552	54,489,254	54,291,940	55,823,661	56,850,299	58,893,332	59,100,140
Utility franchise fees	7,366,814	5,990,452	6,492,100	6,571,993	6,071,893	6,478,637	6,780,156	6,388,844	5,974,790	6,304,008
Unrestricted grants and contributions	1,386,747	226,195	10,085	-	55,357	-	-	-	-	-
Unrestricted investment earnings	3,065,530	538,627	163,172	18,480	474	364,291	85,627	152,888	64,861	317,642
Insurance proceeds from hail storm	-	1,778,572	-	-	-	-	-	-	-	-
Other	309,447	1,318,649	1,199,332	1,539,449	527,041	3,462,503	2,108,585	1,397,078	2,043,676	1,618,293
Transfers	(21,629,789)	(34,020,953)	(14,083,290)	(8,315,855)	(12,190,491)	(27,638,513)	(20,487,564)	(16,408,142)	(20,323,854)	(3,995,559)
Total governmental activities	<u>57,696,532</u>	<u>40,701,036</u>	<u>56,495,971</u>	<u>66,796,598</u>	<u>59,881,405</u>	<u>48,473,565</u>	<u>55,758,116</u>	<u>60,096,656</u>	<u>58,908,662</u>	<u>76,018,850</u>
Business-type activities:										
Unrestricted investment earnings	2,362,717	343,471	89,914	14,459	61,383	68,600	87,230	80,875	193,749	401,542
Other	1,247,516	1,116,923	339,356	1,403,727	609,901	1,403,727	1,403,727	138,309	350,917	762,982
Transfers	21,629,789	34,020,953	14,083,290	8,315,855	12,190,491	27,638,513	20,487,564	16,408,142	20,323,854	3,995,559
Total business-type activities	<u>25,240,022</u>	<u>35,481,347</u>	<u>14,512,560</u>	<u>9,734,041</u>	<u>12,861,775</u>	<u>29,110,840</u>	<u>21,978,521</u>	<u>16,627,326</u>	<u>20,868,520</u>	<u>5,160,083</u>
 Total primary government	<u>\$ 82,936,554</u>	<u>\$ 76,182,383</u>	<u>\$ 71,008,531</u>	<u>\$ 76,530,639</u>	<u>\$ 72,743,180</u>	<u>\$ 77,584,405</u>	<u>\$ 77,736,637</u>	<u>\$ 76,723,982</u>	<u>\$ 79,777,182</u>	<u>\$ 81,178,933</u>
Changes in Net Position										
Governmental activities	\$ 14,688,799	\$(10,030,763)	\$ 5,296,842	\$ 14,036,788	\$ 2,931,527	\$(11,812,158)	\$(10,771,574)	\$ 1,201,763	\$ 11,017,446	\$ 18,681,555
Business-type activities	<u>25,247,910</u>	<u>41,775,994</u>	<u>17,136,859</u>	<u>13,364,148</u>	<u>14,152,709</u>	<u>27,963,029</u>	<u>14,748,974</u>	<u>18,054,008</u>	<u>27,870,893</u>	<u>3,771,481</u>
Total primary government	<u>\$ 39,936,709</u>	<u>\$ 31,745,231</u>	<u>\$ 22,433,701</u>	<u>\$ 27,400,936</u>	<u>\$ 17,084,236</u>	<u>\$ 16,150,871</u>	<u>\$ 3,977,400</u>	<u>\$ 19,255,771</u>	<u>\$ 38,888,339</u>	<u>\$ 22,453,036</u>

Table 3

City of Fort Smith, Arkansas
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)
(Unaudited)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues										
Taxes (1)	\$ 74,585,914	\$ 69,476,528	\$ 69,689,304	\$ 71,868,941	\$ 72,036,723	\$ 72,257,168	\$ 74,337,156	\$ 74,880,735	\$ 77,077,945	\$ 78,253,489
Licenses and permits	2,126,151	1,559,950	1,489,526	1,628,157	1,553,688	1,612,104	1,623,061	1,609,554	1,991,228	1,829,600
Intergovernmental	13,608,213	13,117,444	12,881,250	12,552,267	12,672,787	13,423,088	15,018,681	15,109,545	22,571,712	14,075,150
Fines and forfeitures	2,188,504	2,098,901	2,299,274	2,356,809	2,408,231	2,570,173	2,121,646	2,508,139	2,362,403	2,086,363
Charges for services	1,215,016	1,172,312	1,237,853	1,108,213	1,277,269	1,333,228	1,340,413	1,317,163	1,287,951	1,452,156
Investment earnings	3,114,332	566,378	166,106	18,480	141,141	383,964	185,589	262,136	168,689	442,148
Contributions	3,926,800	1,511,328	1,338,330	1,341,458	1,395,068	2,707,215	2,046,589	3,518,989	3,259,813	2,341,394
Miscellaneous	274,696	189,946	341,329	470,997	343,630	769,159	367,470	303,595	741,307	585,585
Total revenues	<u>101,039,626</u>	<u>89,692,787</u>	<u>89,442,972</u>	<u>91,345,322</u>	<u>91,828,537</u>	<u>95,056,099</u>	<u>97,040,605</u>	<u>99,509,856</u>	<u>109,461,048</u>	<u>101,065,885</u>
Expenditures										
General government	8,317,788	8,226,444	7,879,961	7,969,047	7,972,590	8,316,034	8,544,169	8,346,483	7,714,771	8,012,962
Public safety	26,885,795	30,697,704	30,032,414	31,659,461	31,596,228	34,497,803	33,985,035	36,145,342	33,527,587	32,844,745
Public works	5,820,879	5,254,628	5,870,159	6,450,755	5,734,913	7,461,123	7,341,039	6,645,539	6,291,652	5,983,213
Community services	5,586,246	9,338,549	7,987,136	7,144,380	7,236,525	7,199,963	8,404,310	9,091,293	8,155,214	7,947,477
Other	3,550,903	1,830,124	2,335,524	2,368,766	1,812,324	1,772,276	1,636,526	1,760,379	1,448,839	1,543,680
Capital outlay	29,323,932	31,766,713	34,187,241	31,670,727	30,928,218	49,788,131	41,638,644	39,788,772	50,789,749	30,415,836
Debt service										
Principal	17,110,000	17,785,000	16,805,000	17,495,000	1,940,000	12,905,000	11,315,000	11,240,000	11,425,000	12,320,000
Interest	3,141,156	2,917,861	3,040,386	2,367,651	2,688,400	3,575,061	4,217,236	4,247,774	3,938,833	4,138,267
Issuance costs	-	259,839	75,892	-	349,650	-	400,062	-	-	-
Total expenditures	<u>99,736,699</u>	<u>108,076,862</u>	<u>108,213,713</u>	<u>107,125,787</u>	<u>90,258,848</u>	<u>125,515,391</u>	<u>117,482,021</u>	<u>117,265,582</u>	<u>123,291,645</u>	<u>103,206,180</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,302,927</u>	<u>(18,384,075)</u>	<u>(18,770,741)</u>	<u>(15,780,465)</u>	<u>1,569,689</u>	<u>(30,459,292)</u>	<u>(20,441,416)</u>	<u>(17,755,726)</u>	<u>(13,830,597)</u>	<u>(2,140,295)</u>
Other financing sources and (uses)										
Transfers in	17,313,147	29,689,472	6,809,336	3,531,999	77,142,266	3,632,186	36,885,129	1,833,771	1,060,810	2,881,246
Transfers out	(39,169,188)	(64,000,227)	(6,269,982)	(3,077,367)	(76,972,738)	(3,849,710)	(36,937,129)	(1,775,248)	(962,881)	(1,959,000)
Insurance proceeds from hail storm	-	1,778,572	-	-	-	-	-	-	-	-
Premiums on bond issuance	-	236,307	16,217	-	6,269,913	-	1,028,741	-	-	-
Bond issuance	15,685,899	29,150,000	3,595,000	-	110,660,000	-	34,295,000	-	-	-
Escrow deposits	-	-	-	-	(53,700,952)	-	-	-	-	-
Capital leases	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>(6,170,142)</u>	<u>(3,145,876)</u>	<u>4,150,571</u>	<u>454,632</u>	<u>63,398,489</u>	<u>(217,524)</u>	<u>35,271,741</u>	<u>58,523</u>	<u>97,929</u>	<u>922,246</u>
Net change in fund balances	<u>\$ (4,867,215)</u>	<u>\$(21,529,951)</u>	<u>\$(14,620,170)</u>	<u>\$(15,325,833)</u>	<u>\$ 64,968,178</u>	<u>\$(30,676,816)</u>	<u>\$ 14,830,325</u>	<u>\$(17,697,203)</u>	<u>\$(13,732,668)</u>	<u>\$ (1,218,049)</u>
Debt service as a % of noncapital expenditures	28.8%	27.1%	26.8%	26.3%	7.8%	21.8%	20.5%	20.0%	21.2%	22.6%

(1) See Table 6 for detail of tax revenues.

Table 4

City of Fort Smith, Arkansas
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)
(Unaudited)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Fund										
Reserved	\$ 3,654,013	\$ 2,772,912	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	7,052,220	5,772,601	-	-	-	-	-	-	-	-
Nonspendable	-	-	126,037	66,707	264,783	44,106	73,340	56,438	190,121	190,100
Restricted	-	-	1,467,461	283,616	-	-	-	-	-	-
Assigned	-	-	1,910,794	1,407,063	4,450,203	1,205,979	1,406,631	1,701,712	1,319,552	1,121,752
Unassigned	-	-	4,938,318	5,983,015	4,269,917	10,435,252	10,197,081	7,712,281	13,383,861	15,983,316
Total general fund	10,706,233	8,545,513	8,442,610	7,740,401	8,984,903	11,685,337	11,677,052	9,470,431	14,893,534	17,295,168
All other governmental funds										
Reserved	86,760,617	68,080,708	-	-	-	-	-	-	-	-
Unreserved, reported in:										
Special revenue funds	13,603,715	12,771,282	-	-	-	-	-	-	-	-
Capital projects funds	516,855	709,966	-	-	-	-	-	-	(3,048)	-
Nonspendable	-	-	343,606	526,015	673,709	701,931	339,952	179,311	194,052	641,036
Restricted	-	-	62,360,676	51,037,382	114,702,230	79,671,763	95,030,923	79,584,620	59,530,245	52,846,439
Committed	-	-	508,840	443,933	-	-	-	-	-	-
Assigned	-	-	3,781,567	363,735	453,802	2,078,797	1,920,226	2,036,588	2,923,499	5,537,590
Total all other governmental funds	100,881,187	81,561,956	66,994,689	52,371,065	115,829,741	82,452,491	97,291,101	81,800,519	62,644,748	59,025,065
Total governmental fund balances	\$ 111,587,420	\$ 90,107,469	\$ 75,437,299	\$ 60,111,466	\$ 124,814,644	\$ 94,137,828	\$ 108,968,153	\$ 91,270,950	\$ 77,538,282	\$ 76,320,233

The City of Fort Smith adopted GASB 54 for fiscal year ending 12/31/2010. In the schedule above all years prior to 2011 are stated in its original form and therefore are not directly comparable to 2011 or later.

Table 5

City of Fort Smith, Arkansas
General Fund Revenues, Expenditures, and Fund Balance
Continuing Disclosure Requirement
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)
(Unaudited)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues	\$ 38,953,983	\$ 36,683,453	\$ 37,014,019	\$ 37,744,298	\$ 38,056,106	\$ 43,930,416	\$ 43,702,563	\$ 44,355,055	\$ 44,912,352	\$ 45,290,927
Expenditures	<u>38,654,800</u>	<u>41,671,672</u>	<u>39,433,872</u>	<u>40,670,109</u>	<u>38,750,928</u>	<u>42,663,082</u>	<u>45,643,048</u>	<u>45,169,301</u>	<u>38,905,420</u>	<u>41,298,295</u>
Excess (deficiency) of revenues over (under) expenditures	299,183	(4,988,219)	(2,419,853)	(2,925,811)	(694,822)	1,267,334	(1,940,485)	(814,246)	6,006,932	3,992,632
Other financing sources (uses)	<u>1,957,998</u>	<u>2,777,499</u>	<u>2,366,950</u>	<u>2,223,602</u>	<u>1,634,238</u>	<u>1,738,186</u>	<u>1,932,200</u>	<u>(1,392,375)</u>	<u>(583,829)</u>	<u>(1,590,998)</u>
Net change in fund balances	2,257,181	(2,210,720)	(52,903)	(702,209)	939,416	3,005,520	(8,285)	(2,206,621)	5,423,103	2,401,634
Fund balance, January 1	<u>8,449,052</u>	<u>10,706,233</u>	<u>8,495,513</u>	<u>8,442,610</u>	<u>7,740,401</u>	<u>8,679,817</u>	<u>11,685,337</u>	<u>11,677,052</u>	<u>9,470,431</u>	<u>14,893,534</u>
Fund balance, December 31	<u>\$ 10,706,233</u>	<u>\$ 8,495,513</u>	<u>\$ 8,442,610</u>	<u>\$ 7,740,401</u>	<u>\$ 8,679,817</u>	<u>\$ 11,685,337</u>	<u>\$ 11,677,052</u>	<u>\$ 9,470,431</u>	<u>\$ 14,893,534</u>	<u>\$ 17,295,168</u>

Table 6

City of Fort Smith, Arkansas
General Governmental Taxes by Source
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Ad Valorem Taxes	Sales Taxes (1)	Utility Franchise Fees	Total
2008	\$ 9,381,976	\$ 57,837,124	\$ 7,366,814	\$ 74,585,914
2009	10,884,313	52,601,763	5,990,452	69,476,528
2010	11,105,733	52,091,471	6,492,100	69,689,304
2011	11,458,396	53,838,552	6,571,993	71,868,941
2012	11,475,576	54,489,254	6,071,893	72,036,723
2013	11,486,591	54,291,940	6,478,637	72,257,168
2014	11,733,339	55,823,661	6,780,156	74,337,156
2015	11,641,592	56,850,299	6,388,844	74,880,735
2016	12,209,823	58,893,332	5,974,790	77,077,945
2017	12,849,341	59,100,140	6,304,008	78,253,489

(1) The City began collecting a 1% sales tax for street projects in November 1985, a 1/2% sales tax for bond retirement in January 1998 through June 2004, and the City share of the county 1% sales tax in August 1994. In May 2006, the City began collecting a 1% sales tax for bond retirement. The sales taxes for bond retirement are now used to support the 2012 sales and use tax bonds. This 1% sales tax, reapproved in March 2012, is split 3/4% for bond retirement and 1/4% for General Fund programs. The 2012 sales and use tax bonds were issued for general government uses and business-type activities. The business-type activity improvements are recorded as contributions on the fund financial statements.

Table 7

City of Fort Smith, Arkansas
Local Sales and Use Tax Collections
And Direct and Overlapping Local Tax Rates
Continuing Disclosure Requirement
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	1% City Sales & Use Tax Allocated for Street (1)	City Share 1% County Sales & Use Tax (2)	1% or 3/4% City Sales & Use Tax Allocated for Bonds (3)	1/4% City Sales & Use Tax Allocated Fire & Parks (3)	Total	Direct City Tax Rate	Overlapping Sebastian County Tax Rate
2008	\$ 20,613,205	\$ 16,610,714	20,613,205	\$ -	\$ 57,837,124	2.00%	1.00%
2009	18,777,493	15,046,777	18,777,493	-	52,601,763	2.00%	1.00%
2010	18,599,727	14,892,017	18,599,727	-	52,091,471	2.00%	1.00%
2011	19,341,760	15,155,032	19,341,760	-	53,838,552	2.00%	1.00%
2012	19,605,123	15,279,008	18,836,899	768,224	54,489,254	2.00%	1.00%
2013	19,468,975	15,353,991	14,601,731	4,867,243	54,291,940	2.00%	1.00%
2014	20,099,013	15,625,636	15,074,259	5,024,753	55,823,661	2.00%	1.00%
2015	20,380,151	16,090,921	15,284,934	5,094,293	56,850,299	2.00%	1.00%
2016	21,156,154	16,580,569	15,867,457	5,289,152	58,893,332	2.00%	1.00%
2017	21,204,143	16,691,854	15,903,107	5,301,036	59,100,140	2.00%	1.00%
Total	\$ 199,245,744	\$ 157,326,519	\$ 172,900,572	\$ 26,344,701	\$ 555,817,536		

(1) The City Sales and Use Tax allocated for construction, repair and maintenance of street, bridge and associated drainage improvements was initially assessed in 1985 for a period of 10 years. The tax has been reauthorized through 2025. The tax is accounted for in the Sales Tax Fund, a special revenue fund.

(2) Sebastian County began assessing a 1% Sales and Use Tax August 1, 1994. The City receives a share of the tax based upon its population within Sebastian County. The City allocates its share of the tax to its General Fund. The tax has been reauthorized through 2024.

(3) Prior to May 2006, the City assessed two 1/2 % City sales and use taxes to total 1% for bond redemption. The first 1/2% was allocated to redeem the City of Fort Smith Sales and Use Tax Bonds, Series 1997. The 1997 Bonds were issued to fund the construction for the convention center, public library facilities, and riverfront park projects. The tax became effective January 1, 1998. The second 1/2% was allocated to redeem the City of Fort Smith Sales and Use Tax Bonds, Series 2001. The 2001 Bonds were issued to fund a portion of the Lake Fort Smith water supply expansion project and to fund wastewater improvements. The tax for the 2001 Bonds became effective May 1, 2001. The 1997 Bonds were redeemed in June 2004 and now the entire 1% tax is allocated to the repayment of the 2001 Bonds. In May 2006, the 1% sales and use tax was approved to support the issuance of City of Fort Smith Sales and Use Tax Refunding and Construction Bonds, Series 2006. The 2006 Bonds were issued to refund the outstanding 2001 Bonds, acquire a public safety and utility radio communication system, and provide wastewater improvements in accordance with an EPA administrative order. In November 2008, additional sales and use tax bonds were issued to provide more funding for the radio project and the wastewater projects. In September 2009, additional sales and use tax bonds were issued for more wastewater projects. The 2009 Bonds will be paid with the sales and use tax once the 2006 and 2008 Bonds are redeemed. The 2009 Bonds interest payments are currently being supported by a temporary sewer rate that is in effect until the 2006 and 2008 Bonds are redeemed. In January 2010, the City issued additional sales and use tax bonds for even more wastewater projects. The 2006, 2008, and 2010 Bonds are supported by the 1% sales and use tax. Once these bonds are redeemed, the 1% sales and use tax will support the 2009 Bonds and the temporary sewer rate will be discontinued. The 2010 were redeemed in full during 2010. In May 2012, the city issued sales and use tax bonds to provide for water improvements, wastewater improvements, fire facilities and apparatus, and for an aquatics park in conjunction with Sebastian County. The outstanding 2006, 2008 and 2009 bonds were called by the 2012 bonds. The temporary sewer rate was removed in early July 2012. Beginning October 1, 2012, the 1% sales tax is split with 3/4% allocated to the redemption of the 2012 bonds and 1/4% allocated to operations in the fire and parks departments.

Table 8

City of Fort Smith, Arkansas
Property Tax Levies and Collections
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Total Tax Levy (1)	Current Tax Collections	Percent of Levy Collections	Delinquent Tax Collections	Total Tax Collections	Collection Percent of Current Levy	Outstanding Delinquent Taxes	Outstanding Delinquent Taxes as a Percent of Current Levy
2008	\$ 8,629,508	\$ 8,154,385	94.49%	\$ 434,209	\$ 8,588,594	99.53%	\$ 280,412	3.25%
2009	8,328,466	7,702,929	92.49%	305,640	8,008,569	96.16%	402,909	4.84%
2010	9,518,247	9,035,518	94.93%	411,376	9,446,894	99.25%	527,023	5.54%
2011	9,730,326	9,299,637	95.57%	344,396	9,644,033	99.11%	453,411	4.66%
2012	10,048,916	9,514,504	94.68%	396,701	9,911,205	98.63%	705,667	7.02%
2013	10,213,111	8,317,052	81.44%	424,158	8,741,210	85.59%	394,097	3.86%
2014	10,551,660	7,740,390	73.36%	1,318,456	9,058,846	85.85%	523,298	4.96%
2015	10,656,912	8,643,537	81.11%	302,693	8,946,230	83.95%	429,658	4.03%
2016	11,638,707	10,869,598	93.39%	349,161	11,218,759	96.39%	419,948	3.61%
2017	12,098,453	10,807,866	89.33%	362,954	11,170,820	92.33%	927,633	7.67%

- (1) Total tax levy is based upon valuation of previous year and has been adjusted for the homestead tax relief for property owners which became effective for the 2001 fiscal year. The tax levy for this schedule represents the City's levy for its General Fund and for the police and fire pension contributions in the LOPFI Fund, a special revenue fund. The city also receives one-half of the collections from the county levy in its Street Maintenance Fund, a special revenue fund.

Table 9

City of Fort Smith, Arkansas
Assessed and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years
(Unaudited)

Fiscal Year (1)	Real Property		Personal Property		Total		Ratio of Total Assessed to Total Estimated Actual	Direct Tax Rate (per \$100 assessed value)
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value		
2008	\$ 844,728,636	\$ 4,223,643,180	\$ 405,474,180	\$ 2,027,370,900	\$ 1,250,202,816	\$ 6,251,014,080	20.00%	0.70
2009	837,275,432	4,186,377,160	335,318,153	1,676,590,765	1,172,593,585	5,862,967,925	20.00%	0.70
2010	873,592,440	4,367,962,200	336,466,947	1,682,334,735	1,210,059,387	6,050,296,935	20.00%	0.70
2011	941,388,230	4,706,941,150	353,247,975	1,766,239,875	1,294,636,205	6,473,181,025	20.00%	0.70
2012	968,690,035	4,843,450,175	357,156,805	1,785,784,025	1,325,846,840	6,629,234,200	20.00%	0.70
2013	980,472,019	4,902,360,095	367,266,450	1,836,332,250	1,347,738,469	6,738,692,345	20.00%	0.70
2014	989,630,922	4,948,154,610	361,225,320	1,806,126,600	1,350,856,242	6,754,281,210	20.00%	0.70
2015	1,013,693,663	5,068,468,315	355,566,010	1,777,830,050	1,369,259,673	6,846,298,365	20.00%	0.70
2016	1,048,822,152	5,244,110,760	374,525,310	1,872,626,550	1,423,347,462	7,116,737,310	20.00%	0.70
2017	1,067,629,242	5,338,146,210	374,356,480	1,871,782,400	1,441,985,722	7,209,928,610	20.00%	0.70

(1) Fiscal year is year of valuation.

The assessed value of real and personal property within the city limits is used as the basis for applying the city's property tax rates shown.

Table 10

City of Fort Smith, Arkansas
Property Tax Rates and Tax Levies
All Direct and Overlapping Governments
Last Ten Fiscal Years
(Unaudited)

Tax rates (per \$100 of assessed valuation):

Fiscal Year (1)	Overlapping Rates								Total Direct & Overlapping Rates	
	City of Fort Smith		Sebastian County		FS School District		FS Public Library			
	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property
2008	\$ 0.70	\$ 0.70	\$ 0.80	\$ 0.80	\$ 3.65	\$ 3.65	\$ 0.10	\$ 0.10	\$ 5.25	\$ 5.25
2009	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	5.25	5.25
2010	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	5.25	5.25
2011	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	5.25	5.25
2012	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	5.25	5.25
2013	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	5.25	5.25
2014	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	5.25	5.25
2015	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	5.25	5.25
2016	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	5.25	5.25
2017	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	5.25	5.25

Fiscal Year (1)	Overlapping Rates								Total Direct & Overlapping Rates	
	City of Fort Smith		Sebastian County		FS School District		FS Public Library			
	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property
2008	\$ 7.00	\$ 7.00	\$ 8.00	\$ 8.00	\$ 36.50	\$ 36.50	\$ 1.00	\$ 1.00	\$ 52.50	\$ 52.50
2009	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	52.50	52.50
2010	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	52.50	52.50
2011	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	52.50	52.50
2012	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	52.50	52.50
2013	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	52.50	52.50
2014	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	52.50	52.50
2015	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	52.50	52.50
2016	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	52.50	52.50
2017	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	52.50	52.50

(1) Fiscal year is year of levy.

Table 11

City of Fort Smith, Arkansas
Principal Taxpayers
Current Year and Nine Years Ago
(Unaudited)

Name of Taxpayer (1)	2017			2008		
	Taxable Assessed Valuation (2)	Rank	Percentage of Total Assessed Valuation	Taxable Assessed Valuation (2)	Rank	Percentage of Total Assessed Valuation
Oklahoma Gas & Electric Co.	\$ 28,975,475	1	2.04%			
Fort Smith HMA PBC Mgmt. LLC	20,458,680	2	1.44%			
Gerber Products Company	18,702,577	3	1.31%	\$ 3,397,150	5	0.30%
Mercy Medical Center	18,326,195	4	1.29%	3,187,430	6	0.28%
ABB (formerly Baldor Electric Company)	18,233,930	5	1.28%			
Wal-Mart Sam's Club	17,356,445	6	1.22%			
Cellco Partnership	16,289,780	7	1.14%			
Dixie Consumer Products	15,383,615	8	1.08%			
FS Mall Partners (Central Mall)	14,385,380	9	1.01%	8,353,800	1	0.74%
OK Farms, Inc.	13,845,070	10	0.97%	3,027,230	8	0.27%
Whirlpool Corporation				5,818,980	2	0.51%
GGNSC Administrative Services				5,519,990	3	0.49%
Arkansas Best Corporation				3,779,080	4	0.33%
The Parks Apartments of Fort Smith				3,068,870	7	0.27%
Widmer Place, Inc.				2,963,840	9	0.26%
Hiram Walker & Sons/Pernod Ricard USA				2,594,390	10	0.23%
	<u>\$ 181,957,147</u>		12.78%	<u>\$ 41,710,760</u>		3.68%

(1) Sebastian County Assessor's Office.

(2) Property taxes collected in 2017 are based upon 2016 assessed valuation of \$1,423,347,462. Property taxes collected in 2008 were based upon the 2007 assessed valuation of \$1,134,811,514.

Table 12

City of Fort Smith, Arkansas
Computation of Direct and Estimated Overlapping Debt
December 31, 2017
(Unaudited)

Taxing Jurisdiction	Total Outstanding Bonded Debt (1)	Estimated Percent Applicable (2)	Direct and Estimated Overlapping Bonded Debt
Direct:			
City of Fort Smith	<u>\$ 88,916,358</u>	100%	<u>\$ 88,916,358</u>
Overlapping:			
Fort Smith Special School District	73,187,390	100%	73,187,390
Greenwood School District	46,005,000	5%	2,300,250
Sebastian County	<u>-</u>	76%	<u>-</u>
Total Overlapping	<u>119,192,390</u>		<u>75,487,640</u>
Total direct and estimated overlapping bonded debt	<u><u>\$ 208,108,748</u></u>		<u><u>\$ 164,403,998</u></u>
Ratio, direct and estimated overlapping debt to fiscal 2017 assessed valuation (3)			11.6%
Per capita direct and estimated overlapping bonded debt (4)			<u><u>\$ 1,885</u></u>

(1) Excluding self-supporting debt.

(2) The percentage applicable to the City of Fort Smith is based on the relative assessed values within the City.

(3) From Table 9, \$1,441,985,722

(4) Based on the estimated population for 2017 in Table 16.

Table 13

City of Fort Smith, Arkansas
Computation of Legal Debt Margin
Last Ten Fiscal Years
(Unaudited)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net assessed value (1)	\$ 1,250,202,816	\$ 872,593,585	\$ 1,210,059,387	\$ 1,294,636,205	\$ 1,325,846,840	\$ 1,347,738,469	\$ 1,350,856,242	\$ 1,369,259,673	\$ 1,423,347,462	\$ 1,441,985,722
Plus exempt property (2)	-	-	-	-	-	-	-	-	-	-
Total assessed value	<u>\$ 1,134,811,514</u>	<u>\$ 872,593,585</u>	<u>\$ 1,210,059,387</u>	<u>\$ 1,294,636,205</u>	<u>\$ 1,325,846,840</u>	<u>\$ 1,325,846,840</u>	<u>\$ 1,347,738,469</u>	<u>\$ 1,350,856,242</u>	<u>\$ 1,350,856,242</u>	<u>\$ 1,441,985,722</u>
Debt limit - 25% of total assessed value (3)	\$ 312,550,704	\$ 218,148,396	\$ 302,514,847	\$ 323,659,051	\$ 331,461,710	\$ 336,934,617	\$ 337,714,061	\$ 342,314,918	\$ 355,836,866	\$ 360,496,431
Amount of debt applicable to	-	-	-	-	-	-	-	-	-	-
Debt Margin	<u>\$ 312,550,704</u>	<u>\$ 218,148,396</u>	<u>\$ 302,514,847</u>	<u>\$ 323,659,051</u>	<u>\$ 331,461,710</u>	<u>\$ 331,461,710</u>	<u>\$ 336,934,617</u>	<u>\$ 337,714,061</u>	<u>\$ 337,714,061</u>	<u>\$ 360,496,431</u>

(1) From Table 7.

(2) Not available

(3) Limitation is established by state statute.

(4) Includes general obligation debt net of assets available for bond retirement.

Table 14

City of Fort Smith, Arkansas
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Governmental Activities			Business-Type Activities			Total Primary Government	Percentage of Personal Income (1)	Per Capita
	Sales Tax Bonds	Notes Payable	Capital Leases	Revenue Bonds	Sales Tax Bonds	Capital Leases			
2008	\$ 71,291,296	\$ 1,425,000	\$ 161,340	\$ 200,133,887	\$ -	\$ 14,482	\$ 273,026,005	3.1%	\$ 3,223
2009	83,108,248	970,000	96,209	193,336,746	-	759,641	278,270,844	3.1%	3,245
2010	70,142,001	495,000	49,134	186,251,924	-	514,572	257,452,631	2.7%	2,986
2011	52,894,533	-	-	179,222,398	-	677,219	232,794,150	2.4%	2,671
2012	115,161,914	-	294,355	174,755,817	-	910,196	291,122,282	3.1%	3,329
2013	101,838,920	-	160,439	168,766,139	-	1,066,493	230,042,219	2.4%	2,631
2014	125,361,084	-	281,239	162,626,345	-	355,190	282,394,551	3.0%	3,238
2015	113,634,511	-	173,163	188,028,416	-	-	301,836,090	3.2%	3,452
2016	101,722,935	-	88,100	184,391,017	-	-	286,202,052	2.9%	3,245
2017	88,916,358	-	-	177,146,166	-	-	266,062,524	2.7%	3,004

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(1) See Table 16 for the personal income and population data.

Table 15

City of Fort Smith, Arkansas
Revenue Bonds Debt Service Coverage
Last Ten Fiscal Years
(Unaudited)

	Fiscal Year	Revenue (1)	Direct Operating Expenses (2)	Net Revenue Available for Debt Services	Debt Service Requirements			Coverage
					Principal	Interest (3)	Total	
Water and Sewer System	2008	\$ 38,608,012	\$ 20,463,804	\$ 18,144,208	\$ 8,350,000	\$ 6,411,852	\$ 14,761,852	123%
	2009	37,118,841	21,489,095	15,629,746	5,665,000	9,335,000	15,000,000	104%
	2010	38,661,437	20,872,208	17,789,229	5,910,000	9,089,126	14,999,126	119%
	2011	40,820,838	20,759,793	20,061,045	6,170,000	8,828,313	14,998,313	134%
	2012	41,080,985	22,019,792	19,061,193	4,045,000	7,968,048	12,013,048	159%
	2013	37,841,132	22,867,856	14,973,276	5,705,000	7,896,016	13,601,016	110%
	2014	36,176,568	23,037,349	13,139,219	5,870,000	7,728,715	13,598,715	97%
	2015	43,646,523	24,179,774	19,466,749	6,085,000 (5)	7,567,304	13,652,304	143%
	2016	53,684,097	26,705,909	26,978,188	6,675,000 (6)	7,836,058	14,511,058	186%
	2017	55,851,653	27,161,854	28,689,799	6,275,000	7,374,703	13,649,703	210%
Solid Waste System	2008	\$ 14,650,900	\$ 10,346,750	\$ 2,852,414	\$ 910,000	\$ 153,320	\$ 1,063,320	268%
	2009	12,675,503	10,058,856	4,304,150	945,000	113,716	1,058,716	405%
	2010	13,390,293	10,476,471	2,616,647	1,020,000	83,220	1,103,220	247%
	2011	12,675,503	10,142,163	2,913,822	1,060,000	21,465	1,081,465	264%
	2012	12,927,934	10,925,530	2,533,340	-	-	-	N/A
	2013 (4)	15,278,747	10,820,344	4,458,403	-	-	-	N/A
	2014 (4)	13,638,922	11,598,608	4,458,403	-	-	-	N/A
	2015 (4)	13,827,406	10,846,954	2,980,452	-	-	-	N/A
	2016 (4)	14,857,037	10,181,649	4,675,388	-	-	-	N/A
	2017 (4)	14,972,614	11,868,266	3,104,348	-	-	-	N/A

(1) For purposes of this schedule, revenue includes operating revenue, interest revenue, and gross other nonoperating revenue.

(2) Excludes depreciation expense and amortization expense.

(3) Total interest paid for the fiscal year is presented in this schedule for revenue bonds only and it does not include capitalized interest or accrued interest.

2017 reconciliation of interest paid reported on this schedule to the statement of revenues, expenses, and changes in fund net assets for the proprietary funds:

	Water & Sewer
Interest paid - this schedule	\$ 7,374,703
Bond expenses	(24,132)
Accrued interest - 12/31/16	(1,656,649)
Accrued interest - 12/31/17	3,848,106
Interest expense and fiscal charges - statement of revenues, expenses, and changes in fund net position	<u>\$ 9,542,028</u>

(4) The solid waste system revenue bonds were redeemed in full during 2011. There are no revenue bonds outstanding at December 31, 2012 - 2017 for the solid waste system.

(5) For the purposes of this schedule, the principle amount was adjusted for the 2005B bond refunding and the amount that was expected to be retired in 2015 relating to these bonds.

(6) For the purposes of this schedule, the principle amount was adjusted for the 2007 full bond refunding and 2008 partial bond refunding and the amount that was expected to be retired in 2016 relating to these bonds.

Table 16

City of Fort Smith, Arkansas
Demographic Statistics
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	City Population (1)	County Population (1)	Personal Income (2) (in thousands)	Per Capita Income (2)	Median Age (3)	Education Level in Years of Schooling	School Enrollment (4)	Unemployment Rate (2)
2008	84,708	122,436	\$ 8,937,040	\$ 31,602	35.4	12	13,759	6.1%
2009	85,747	123,597	9,054,458	30,896	35.4	12	13,792	8.2%
2010	86,209	125,744	9,395,000	31,266	35.0	12	14,109	8.5%
2011	87,155	126,948	9,537,232	31,891	35.0	12	13,896	8.6%
2012	87,443	127,304	9,503,067	33,876	35.0	12	14,048	7.7%
2013	87,443	127,304	9,469,141	34,892	35.0	12	14,313	8.1%
2014	87,215	127,463	9,478,220	34,711	35.7	12	14,317	5.5%
2015	87,443	126,716	9,546,448	37,340	35.0	12	14,918	5.4%
2016	88,194	127,793	9,778,769	34,065	37.8	12	14,341	4.3%
2017	88,570 *	128,107 *	9,964,566 *	35,956 *	38.1	12	14,407	4.1%

Data Sources:

- (1) Bureau of the Census
- (2) U.S. Department of Commerce
- (3) Community Development Department's estimate.
- (4) Fort Smith School District
- * Estimate

Table 17

City of Fort Smith, Arkansas
Principal Employers
Continuing Disclosure Requirement
Current Year and Nine Years Ago
(Unaudited)

Employer	2017			2008		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Sparks Health Systems	2,200	1	1.9%	2,170	4	1.5%
O. K. Industries	2,100	2	1.9%	4,748	1	3.3%
ABB (Formerly Baldor Electric Co)	1,800	3	1.6%	2,262	3	1.6%
Fort Smith Public Schools	1,783	4	1.6%	1,702	7	1.2%
Mercy Medical Center	1,487	5	1.3%	1,800	5	1.3%
Arkansas Best Corp.	1,400	6	1.2%	946	8	0.7%
Univerify of Arkansas at Fort Smith	951	7	0.8%	772	10	0.5%
188th Air National Guard	925	8	0.8%			
Rheem Manufacturing	700	9	0.6%	1,774	6	1.2%
Shared Services	600	10	0.5%			
Whirlpool Corporation				3,000	2	2.1%
City of Fort Smith				898	9	0.6%
Total	13,946		12.3%	20,072		14.0%

Data Sources:

Chamber of Commerce

U.S. Department of Labor, employment totals:

2017	113,100
2008	143,338

Table 18

City of Fort Smith, Arkansas
Full-time Equivalent City Government Employees by Function
Last Ten Fiscal Years
(Unaudited)

Function	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General government	125	125	127	127	126	126	125	126	132	134
Public safety:										
Police										
Officers	168	168	170	170	163	163	163	162	164	163
Civilians	46	52	59	59	59	59	59	59	55	55
Fire										
Firefighters and officers	129	129	129	129	129	149	149	149	149	149
Civilians	3	3	3	3	3	3	3	3	3	3
Public works:										
Operations	5	5	5	5	5	5	5	5	5	5
Streets	46	46	46	46	46	54	54	53	53	54
Traffic control	13	13	13	13	13	13	13	13	14	13
Parks and recreation	57	58	58	58	58	64	64	63	61	64
Transit	36	36	36	36	36	35	34	33	33	33
Water and sewer	191	191	192	189	191	192	196	223	264	270
Sanitation	78	78	78	78	78	78	78	79	88	86
Total	897	904	916	913	907	941	943	968	1,021	1,029

Table 19

City of Fort Smith, Arkansas
Capital Asset Statistics by Function
Last Ten Fiscal Years
(Unaudited)

Function	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Sub-stations	8	8	8	8	8	8	8	8	8	8
Patrol units	12	12	12	12	12	12	12	12	12	12
Fire:										
Stations	10	10	10	10	10	11	11	11	11	11
Apparatus	21	21	21	21	18	17	17	17	30	27
Streets										
Streets (miles)	578	590	590	590	590	590	590	590	503	505
Streetlights	6,029	6,029	6,029	6,053	6,053	6,053	6,053	6,600	6,778	6,053
Traffic signals	142	146	146	149	149	149	149	150	151	149
Parks and recreation										
Parks acreage (square feet)	273	273	273	273	273	273	276	286	325	325
Parks	25	25	25	25	25	25	26	28	28	28
Swimming pools	1	1	1	1	1	1	1	1	1	1
Water splashpad	1	1	1	1	1	1	1	2	2	2
Tennis courts	12	12	12	12	12	12	12	12	12	12
Skatepark	1	1	1	1	1	1	1	1	1	1
Community centers	5	5	5	5	5	5	5	5	5	5
Convention center -										
Theater -seats	1,331	1,331	1,331	1,331	1,331	1,331	1,331	1,331	1,331	1,331
Theater -area (square feet)	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200
Exhibit Hall -area (square feet)	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000
Transit buses	20	20	20	20	20	20	19	16	16	16
Water and sewer										
Water mains (miles)	627	626	626	626	626	626	626	702	702	720
Average daily production capacity (thousands of gallons)	55,000	59,000	41,999	63,400	63,400	63,400	63,400	63,400	63,400	63,400
Average daily consumption (thousands of gal	28,876	37,004	26,473	30,532	30,532	21,267	22,137	20,862	20,878	20,878
Sanitary sewers (miles)	505	516	516	500	500	545	545	516	522	500
Sanitation										
Collection trucks	52	52	53	53	45	45	45	45	44	44
Landfill capacity (in cubic yards)	66,405,305	66,151,721	65,872,831	65,585,500	65,343,244	65,023,707	64,998,995	63,895,067	61,612,281	50,314,801

NA - not available

Table 20

City of Fort Smith, Arkansas
Operating Indicators by Function
Last Ten Fiscal Years
(Unaudited)

Function	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Police:										
Physical arrest	10,848	9,776	10,073	8,820	9,324	8,781	8,155	9,026	9,854	9,521
Parking violations	3,094	5,702	7,622	5,984	5,649	5,312	4,320	5,197	4,904	1,991
Traffic violations	24,191	19,593	16,296	14,841	14,841	14,946	11,343	14,165	11,657	18,389
Fire										
Number of calls answered	7,200	7,825	8,026	8,158	8,793	8,688	10,148	10,071	10,223	10,763
Transit										
Passenger trips	208,600	177,991	191,221	198,165	206,329	215,591	204,097	194,869	190,418	191,124
Water and sewer										
New connections	346	345	450	371	299	314	269	246	325	283
Average daily production (thousands of gal)	23,567	23,934	26,473	30,532	28,554	26,850	22,137	26,859	28,767	26,859
Average daily sewage flow (thousands of gal)	18,231	19,473	16,844	17,421	15,200	14,684	17,100	21,040	15,030	15,010
Sanitation										
Waste disposal (cubic yards/day)	1,042	1,040	1,137	1,052	1,352	1,024	1,024	1,024	1,533	2,368

Table 21

City of Fort Smith, Arkansas
Solid Waste System Statistics
Continuing Disclosure Requirement
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Annual # Sanitation System Customers	Cubic Yardage of Waste at Landfill	Useful Life of Landfill Remaining (1)	Remaining Storage Capacity at Landfill
2008	310,224	1,129,422	40 yrs	66,405,305 cubic yards
2009	312,972	1,124,130	39 yrs	66,151,721 cubic yards
2010	317,124	1,229,905	39 yrs	65,872,831 cubic yards
2011	321,048	1,137,597	21 yrs	65,585,500 cubic yards
2012	323,988	1,466,643	19 yrs	65,343,244 cubic yards
2013	327,036	1,107,403	16 yrs	65,023,707 cubic yards
2014	330,300	1,037,201	12 yrs	64,998,995 cubic yards
2015	351,660	1,367,035	14 yrs	63,895,067 cubic yards
2016	357,036	1,765,715	10 yrs	61,612,281 cubic yards
2017	418,938	2,497,533	4 yrs	50,314,801 cubic yards

(1) This is the remaining life of the current cell being filled at the landfill. The entire landfill has a remaining life of 125 years.

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Table 22

City of Fort Smith, Arkansas
Water and Sewer Statistics
Continuing Disclosure Requirement
(Unaudited)

Fiscal Year	Average Daily Water Use in Gallons	Maximum Daily Water Use in Gallons	Total Water Use for Year in Gallons	Average Daily Sewage Flow in Gallons	
2013	26,850,000	38,419,000	9,800,220,000	14,684,000	
2014	22,137,000	38,157,000	8,079,966,000	17,100,000	
2015	26,859,000	36,791,000	9,803,481,000	21,040,000	
2016	28,767,000	40,783,000	10,528,668,000	15,029,524	
2017	20,434,686	36,791,000	7,458,660,308	15,010,000	
Water Customers					
Fiscal Year	Residential	Commercial	Wholesale	Other	Total
2013	29,261	4,190	13	140	33,604
2014	29,346	4,222	13	151	33,732
2015	29,474	4,205	13	158	33,850
2016	29,789	4,296	13	165	34,263
2017	29,915	4,238	13	168	34,334
Sewer Customers					
Fiscal Year	Residential	Commercial	Government	Total	
2013	26,976	3,669	87	30,732	
2014	27,062	3,654	91	30,807	
2015	27,185	3,664	94	30,943	
2016	27,526	3,696	92	31,314	
2017	27,633	3,628	90	31,351	

Table 22 (Continued)

City of Fort Smith, Arkansas
Water and Sewer Statistics (Continued)
Continuing Disclosure Requirement
(Unaudited)

For 2016:				% of Gross
Entity	Water	Sewer	Total	Revenues
City of Van Buren	\$ 3,358,939	\$ -	\$ 3,358,939	6.31%
OK Foods	2,207,975	249,231	2,457,206	4.61%
Gerdau Macsteel	382,730	884,426	1,267,156	2.38%
Gerber Products	805,007	-	805,007	1.51%
Sparks Medical Center	235,524	393,624	629,148	1.18%
Mars Petcare US	212,409	188,768	401,177	0.75%
Twin River	99,371	281,089	380,460	0.71%
St. Edward Mercy Medical Center	167,538	149,995	317,533	0.60%
James River Dixie	82,817	234,265	317,082	0.60%
Kraft Foods	57,253	161,951	219,204	0.41%
Hiland	86,600	132,529	219,129	0.41%
Hiram Walker	61,887	43,322	105,209	0.20%
Fianna Hills Country Club	76,306	24,949	101,255	0.19%
Top Ten Users	<u>\$ 7,834,356</u>	<u>\$ 2,744,149</u>	<u>\$ 10,578,505</u>	<u>19.86%</u>

For 2017:				% of Gross
Entity	Water	Sewer	Total	Revenues
City of Van Buren	\$ 3,371,913	\$ -	\$ 3,371,913	6.14%
OK Foods	2,588,258	195,955	2,784,213	5.07%
Gerber Products	712,288	-	712,288	1.30%
Gerdau Macsteel	414,188	1,719,453	2,133,641	3.89%
Sparks Medical Center	219,674	345,986	565,660	1.03%
Mars Petcare US	259,644	138,143	397,787	0.72%
St. Edward Mercy Medical Center	150,659	-	150,659	0.27%
The Links Fort Smith	-	190,587	190,587	0.35%
Twin River	141,780	427,094	568,874	1.04%
Pernod Ricard (Hiram Walker)	73,581	-	73,581	0.13%
James River Dixie	88,171	293,849	382,020	0.70%
Simmons	-	225,494	225,494	0.41%
Owens Corning	-	168,773	168,773	0.31%
Sebastian County Park/Jail	-	182,994	182,994	0.33%
Top Ten Users	<u>\$ 8,020,156</u>	<u>\$ 3,888,328</u>	<u>\$ 11,908,484</u>	<u>21.69%</u>

Independent Accountant's Report on Compliance With Certain State Acts

The Honorable Mayor and Board of Directors
City of Fort Smith, Arkansas
Fort Smith, Arkansas

We have examined management's assertions that the City of Fort Smith, Arkansas complied with the requirements of Arkansas Act 15 of 1985 and the following Arkansas statutes during the year ended December 31, 2017:

- (1) Arkansas Municipal Accounting Law of 1973, § 14-59-101 et seq.;
- (2) Arkansas District Courts and City Courts Accounting Law, § 16-10-210 et seq.;
- (3) Improvement contracts, §§ 22-9-202 – 22-9-204;
- (4) Budgets, purchases, and payments of claims, etc., § 14-58-201 et seq. and 14-58-301 et seq.;
- (5) Investment of public funds, § 19-1-501 et seq.; and
- (6) Deposit of public funds, §§ 19-8-101 – 19-8-107.

Management is responsible for its assertion. Our responsibility is to express an opinion on management's assertion about the City's compliance with the aforementioned requirements above based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether management's assertion about compliance with the specified requirements is fairly stated, in all material respects. An examination involves performing procedures to obtain evidence about whether management's assertion is fairly stated, in all material respects. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of management's assertion, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on the City's compliance with specified requirements.

In our opinion, management's assertion that the City of Fort Smith, Arkansas complied with the aforementioned requirements during the year ended December 31, 2017, is fairly stated, in all material respects.

This report is intended solely for the information and use of the Mayor, Board of Directors, management and the State of Arkansas and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

Fort Smith, Arkansas
June 27, 2018